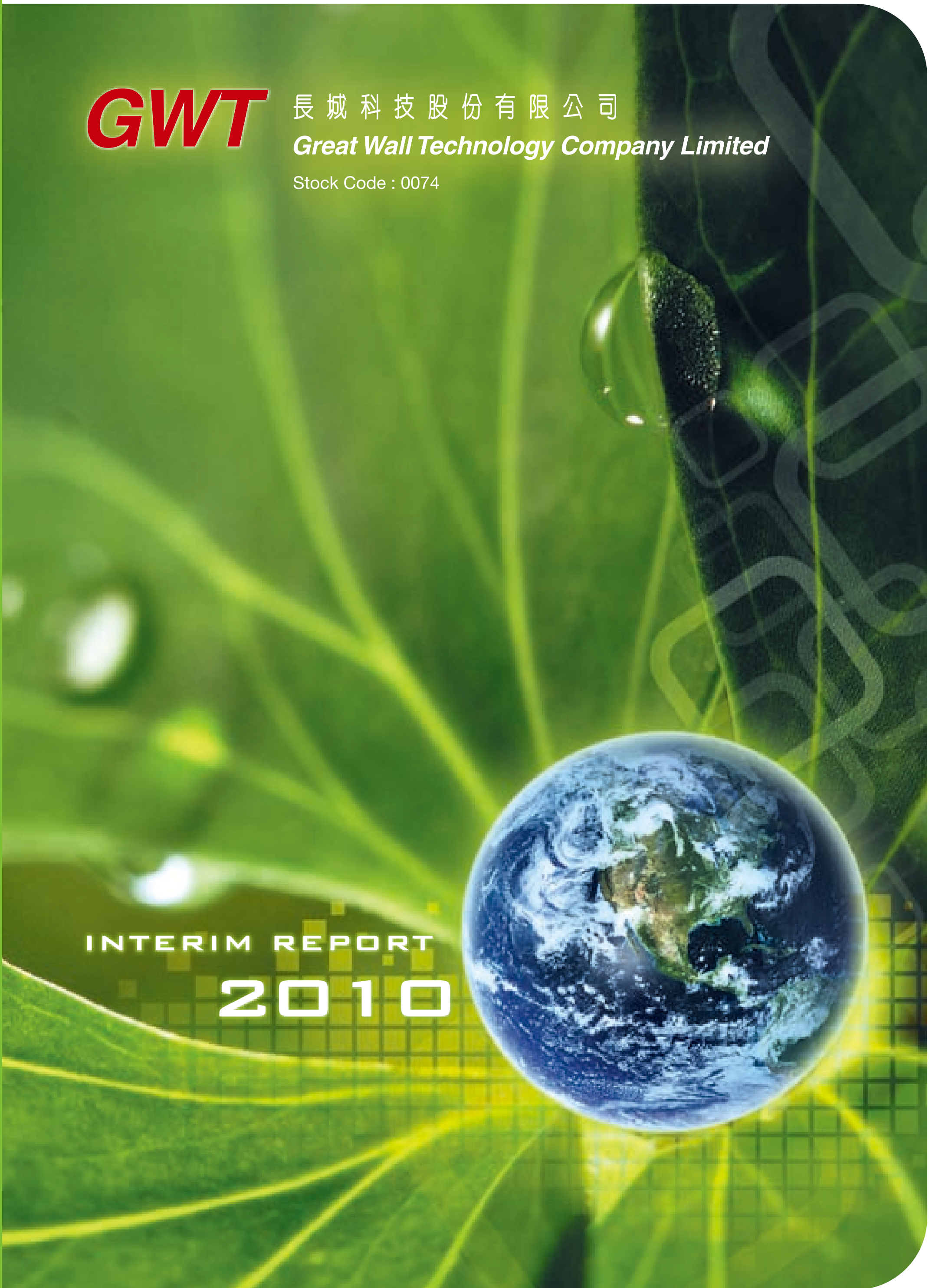
GWT 長城科技股份有限公司

Great Wall Technology Company Limited

Stock Code : 0074



INTERIM REPORT 2010

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CORPORATE INFORMATION

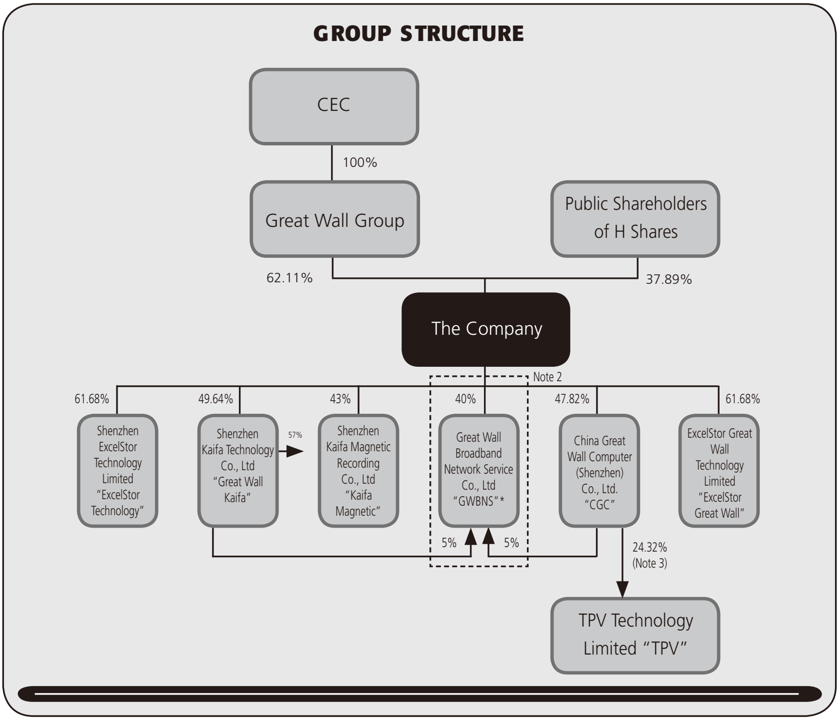
Company Name in Chinese	:	長城科技股份有限公司
Company Name in English	:	Great Wall Technology Company Limited
Place of Registration	:	No. 2 Keyuan Road Technology & Industry Park Nanshan District Shenzhen
Tel	:	(0755) 2672 8686
Fax	:	(0755) 2650 4493
Postal Code	:	518057
Executive Directors	:	Liu Liehong (Chairman) Lu Ming Tam Man Chi Yang Jun Su Duan Du Heping
Independent Non-executive Directors	:	Chen Zhiya Yao Xiaocong James Kong Tin Wong
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	:	SHINEWING (HK) CPA Limited
Domestic Auditor	:	Shinewing Certified Public Accountants
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 and broadband networks and value-added services.



Notes:

(1) 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"), TPV Technology Limited (abbreviated as "TPV"), Great Wall Broadband Network Service Co., Ltd (abbreviated as "GWBNS").

(2) Each of the Company, Great Wall Kaifa and CGC ceased to hold any interests in GWBNS as from 23 August 2010.

(3) TPV is a subsidiary of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	NOTES	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Turnover	3	49,965,686	7,093,854
Cost of sales		(47,527,724)	(6,758,886)
Gross profit		2,437,962	334,968
Other income and gains	4	196,085	61,491
Net realised and unrealised gain on foreign exchange forward contracts		354,930	–
Compensation for termination of contracts		–	116,057
Gain on deemed partial disposal and partial disposal of interests in an associate	5	152,359	–
Discount on acquisition of a subsidiary		–	505,695
Discount on acquisition of an associate		–	141,748
Selling and distribution costs		(982,891)	(124,006)
Administrative expenses		(808,719)	(224,803)
Research and development expenses		(355,117)	(17,665)
Finance costs	6	(69,729)	(18,214)
Loss on derecognition of available-for-sale investments		–	(568,031)
Share of results of associates		32,764	29,379
Profit before tax	7	957,644	236,619
Income tax expense	8	(159,366)	(14,139)
Profit for the period		798,278	222,480
Attributable to:			
Owners of the Company		237,018	130,179
Non-controlling interests		561,260	92,301
		798,278	222,480
Earnings per share			
– Basic and diluted (RMB per share)	10	19.79 cents	10.87 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	**2009**
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	798,278	222,480
Other comprehensive income (expense) for the period		
Change in fair value of available-for-sale investments	(2,886)	167,311
Derecognition of available-for-sale investments	–	437,736
Share of deferred tax on change in fair value of available-for-sale investments	–	(25,097)
Share of other comprehensive income of associates	(1,082)	3,549
Exchange differences arising on translation	(43,068)	(1,624)
Other comprehensive (expense) income for the period	(47,036)	581,875
Total comprehensive income for the period	751,242	804,355
Total comprehensive income attributable to:		
Owners of the Company	228,044	409,027
Non-controlling interests	523,198	395,328
	751,242	804,355

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	NOTES	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	11	5,307,539	5,202,167
Prepaid land lease payments		325,311	338,133
Investment properties	12	1,393,480	1,294,529
Intangible assets		121,221	133,856
Interests in associates		488,868	392,315
Available-for-sale investments		162,182	175,808
Term deposits		4,000	86,008
Deferred tax assets		200,499	187,748
		8,003,100	7,810,564
Current assets			
Inventories		12,605,143	6,533,447
Trade and bills receivables	13	15,369,477	14,389,004
Prepaid land lease payments		9,986	7,317
Prepayments, deposits and other receivables		2,639,773	2,171,247
Financial assets at fair value through profit or loss		27,465	30,246
Tax recoverable		15,656	4,486
Derivative financial instruments		335,077	128,589
Amounts due from fellow subsidiaries		52,919	13,125
Amounts due from associates		36,844	62,538
Term deposits		629,328	495,000
Pledged deposits		457,058	339,900
Bank balances and cash		3,860,820	4,050,766
		36,039,546	28,225,665
Assets classified as held for sale	14	81,390	379,270
		36,120,936	28,604,935

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2010

	NOTES	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Current liabilities			
Trade and bills payables	15	20,421,502	14,789,773
Other payables and accruals		3,223,284	2,934,415
Bank and other loans	16	2,397,577	1,773,011
Convertible bonds of a subsidiary	17	1,437,009	1,428,541
Derivative financial instruments		103,670	119,999
Tax payable		104,103	167,390
Provisions for products warranties	18	507,824	501,855
Amount due to immediate holding company		2,605	2,605
Amounts due to fellow subsidiaries		56,297	56,516
Amounts due to associates		1,263	36,473
		28,255,134	21,810,578
Liabilities associated with assets classified as held for sale	14	–	248,962
		28,255,134	22,059,540
Net current assets		7,865,802	6,545,395
Total assets less current liabilities		15,868,902	14,355,959
Capital and reserves			
Share capital	19	1,197,742	1,197,742
Reserves		3,487,501	3,244,129
Equity attributable to owners of the Company		4,685,243	4,441,871
Non-controlling interests		10,678,144	9,348,292
Total equity		15,363,387	13,790,163
Non-current liabilities			
Bank and other loans	16	–	41,816
Other payables		167,158	196,372
Pension obligations		34,376	34,558
Financial guarantee contracts		3,637	3,637
Deferred tax liabilities		277,996	267,038
Government grants		22,348	22,375
		505,515	565,796
		15,868,902	14,355,959

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Goodwill reserve RMB'000	Asset revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve *(Note)* RMB'000	Translation reserve RMB'000	Employee share-based compensation reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010 (audited)	1,197,742	997,498	272	(28,155)	99,412	2,922	948,959	(51,038)	–	(6,347)	1,280,606	4,441,871	9,348,292	13,790,163
Profit for the period	–	–	–	–	–	–	–	–	–	–	237,018	237,018	561,260	798,278
Other comprehensive expense	–	–	–	–	–	(383)	–	(8,591)	–	–	–	(8,974)	(38,062)	(47,036)
Total comprehensive income for the period	–	–	–	–	–	(383)	–	(8,591)	–	–	237,018	228,044	523,198	751,242
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	1,072,664	1,072,664
Dividends attributable to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(288,259)	(288,259)
Formation of non-wholly owned subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	74,700	74,700
Employee share-based compensation benefits of a subsidiary	–	–	–	–	–	–	–	–	334	–	–	334	2,539	2,873
Attributable to disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(39,996)	(39,996)
Deemed partial disposal of a subsidiary *(Note 21)*	–	–	–	–	–	–	–	–	–	–	14,994	14,994	(14,994)	–
At 30 June 2010 (unaudited)	1,197,742	997,498	272	(28,155)	99,412	2,539	948,959	(59,629)	334	(6,347)	1,532,618	4,685,243	10,678,144	15,363,387

Note: In accordance with the relevant People's Republic of China (the "PRC") rules and regulations, subsidiaries established in the PRC are required to set aside 10% of their profit after income tax as recorded in the PRC statutory financial statements as statutory reserves, except where the reserve fund balance has reached 50% of the subsidiaries' registered capital. The reserve fund can only be used to make good the subsidiaries' previous years' losses, to expand the subsidiaries' production operations or to increase the capital of the subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2010

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Goodwill reserve RMB'000	Asset revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve (Note) RMB'000	Translation reserve RMB'000	Employee share-based compensation reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	1,197,742	997,498	-	(28,155)	47,557	(277,332)	906,689	(47,611)	-	(6,347)	1,007,537	3,797,578	2,573,599	6,371,177
Profit for the period	-	-	-	-	-	-	-	-	-	-	130,179	130,179	92,301	222,480
Other comprehensive income	-	-	-	-	-	277,332	-	1,516	-	-	-	278,848	303,027	581,875
Total comprehensive income for the period	-	-	-	-	-	277,332	-	1,516	-	-	130,179	409,027	395,328	804,355
Dividends paid	-	-	-	-	-	-	-	-	-	-	(65,876)	(65,876)	-	(65,876)
Dividends attributable to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(70,528)	(70,528)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	5,339	5,339
Transfer	-	-	-	-	-	-	41,141	-	-	-	(41,141)	-	-	-
At 30 June 2009 (unaudited)	1,197,742	997,498	-	(28,155)	47,557	-	947,830	(46,095)	-	(6,347)	1,030,699	4,140,729	2,903,738	7,044,467

Note: In accordance with the relevant People's Republic of China (the "PRC") rules and regulations, subsidiaries established in the PRC are required to set aside 10% of their profit after income tax as recorded in the PRC statutory financial statements as statutory reserves, except where the reserve fund balance has reached 50% of the subsidiaries' registered capital. The reserve fund can only be used to make good the subsidiaries' previous years' losses, to expand the subsidiaries' production operations or to increase the capital of the subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(720,599)	84,534
NET CASH USED IN INVESTING ACTIVITIES	(879,818)	(463,510)
NET CASH FROM FINANCING ACTIVITIES	1,386,692	106,057
NET DECREASE IN CASH AND CASH EQUIVALENTS	(213,725)	(272,919)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	4,130,437	2,430,652
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(55,892)	(7,817)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, represented bank balances and cash	3,860,820	2,149,916

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

1. GENERAL INFORMATION

Great Wall Technology Company Limited (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). The addresses of the registered office and the principal place of business of the Company is located at No.2 Keyuan Road, Technology and Industrial Park, Nanshan District, Shenzhen, the PRC.

The Company and its subsidiaries (the "Group") were principally involved in the development, manufacture and sale of computer and related products including hardware and software products.

In the opinion of the directors, the parent of the Company is China Great Wall Computer Group Company, and the ultimate holding company of the Company is China Electronics Corporation as a result of the restructuring approved by the State-owned Assets Supervision and Administration Commission of the State Council on 18 August 2006. Both of them are state-owned enterprises established in the PRC.

These consolidated condensed interim financial information is presented in Renminbi ("RMB") which is the same as the functional currency of the Company while the functional currency of a major subsidiary, TPV Technology Limited ("TPV") is US dollars.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and with Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These consolidated condensed interim financial information has been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values. The accounting policies and basis of presentation used in the preparation of these consolidated condensed interim financial information are consistent with those adopted in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2009 except as described below.

In current interim period, the Group has applied, for the first time, the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Hong Kong Financial Reporting Standards ("HKFRSs") (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of these new and revised HKFRSs had no material effect on the consolidated condensed financial information of the Group for the current or prior accounting periods.

HKAS 27 (Revised) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issue[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information report to chief operating decision maker, for the purposes of resource allocation and performance assessment are as follows:

(a) the TV segment produces televisions;

(b) the monitor segment produces monitors;

(c) the electronic parts and components segment produces magnetic heads, switch power supplies, hard disk drives and disk substrates mainly for use in personal computers ("PC");

(d) the computer segment produces PCs, printers, network electric meters, servers and PC peripheral products;

(e) the property investment segment invests in prime office space for its rental income potential; and

(f) the "others" segment comprises, principally, the sales of chassis, spare parts, complete knock down/semi knock down products, the software and system integration and other related businesses.

3. SEGMENT INFORMATION (continued)

Information regarding the above segments is reported below.

The following tables present revenue, profit and expenditure information for the Group's reportable segments for the six months ended 30 June 2010 and 2009.

For the six months ended 30 June 2010	TV RMB'000	Monitor RMB'000	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue								
Sales to external customers	12,512,692	22,468,408	10,429,012	1,042,470	48,967	3,464,137	–	49,965,686
Other income and gains	11,066	19,830	23,311	2,260	–	2,955	–	59,422
Intersegment sales	–	–	–	4,994	11,746	–	(16,740)	–
Total	12,523,758	22,488,238	10,452,323	1,049,724	60,713	3,467,092	(16,740)	50,025,108
Segment results	112,912	504,746	149,336	1,769	34,559	47,606	(3,347)	847,581
Unallocated gains								136,663
Corporate and other unallocated expenses								(496,924)
Finance costs								(69,729)
Net realised and unrealised gain on foreign exchange forward contracts								354,930
Share of results of associates	(600)	(1,230)	36,935	(2,241)	–	(100)	–	32,764
Gain on deemed partial disposal and partial disposal of interests in an associate	–	–	152,359	–	–	–	–	152,359
Profit before tax								957,644
Income tax expense								(159,366)
Profit for the period								798,278

3. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2009	TV RMB'000	Monitor RMB'000	Electronic parts and components RMB'000	Computer RMB'000	Property investment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue								
Sales to external customers	1,698	1,059,159	4,855,746	776,684	64,831	335,736	–	7,093,854
Other income and gains	–	–	132,625	4,334	1,239	818	–	139,016
Intersegment sales	–	–	243,621	51	18,884	–	(262,556)	–
Total	1,698	1,059,159	5,231,992	781,069	84,954	336,554	(262,556)	7,232,870
Segment results	(838)	8,234	103,579	9,886	29,818	(374)	(20,164)	130,141
Unallocated gains								38,532
Discount on acquisition of a subsidiary								505,695
Discount on acquisition on an associate								141,748
Loss on derecognition of available-for-sale investments								(568,031)
Corporate and other unallocated expenses								(22,631)
Finance costs								(18,214)
Share of results of associates	–	–	26,015	2,560	–	804	–	29,379
Profit before tax								236,619
Income tax expense								(14,139)
Profit for the period								222,480

Segment results represent the profit (loss) attributable to each segment without allocation of central administration costs, director's emoluments, bank interest income, finance costs and income tax expense.

3. SEGMENT INFORMATION (continued)

The following table presents segment assets of the Group's operating segments as at 30 June 2010 and 31 December 2009:

Segment assets	TV	Monitor	Electronic parts and components	Computer	Property investment	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2010	13,020,948	18,528,446	2,505,425	532,716	1,393,480	2,450,937	5,692,084	44,124,036
At 31 December 2009	9,015,226	17,405,502	2,152,957	453,697	1,294,529	595,037	5,498,551	36,415,499

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2010	**2009**
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Government grants	73,901	4,626
Bank interest income	31,874	26,386
Reversal of impairment of trade and bills receivables	22,101	3,721
Sales of scrap material	20,504	–
Gain on disposal of available-for-sale investments	18,027	–
Net realised and unrealised gain on interest rate swaps	7,743	–
Gain on disposal of property, plant and equipment	3,170	–
Gain on disposal of subsidiaries *(Note 22)*	1,718	–
Gain on disposal of equity investments at financial assets at fair value through profit or loss	139	–
Reversal of impairment for inventories	–	12,585
Dividend income from listed available-for-sale investment	–	6,822
Dividend income from unlisted available-for-sale investments	–	1,021
Others	16,908	6,330
	196,085	61,491

5. GAIN ON DEEMED PARTIAL DISPOSAL AND PARTIAL DISPOSAL OF INTERESTS IN AN ASSOCIATE

On 29 April 2010, one of the associates of the Group, O-Net Communications (Group) Limited ("O-Net"), was listed on the Main Board of The Stock Exchange of Hong Kong Limited and new shares were issued upon the listing of the shares of O-Net ("Share Listing"). Upon the Share Listing, the Group's shareholding in O-Net was diluted from 46% to approximately 34.5%. On 6 May 2010, the over-allotment option as referred to in the prospectus of the Share Listing was fully exercised and the Group was required to dispose of its 13,759,183 shares of O-Net. As a result, the Group's interest in O-Net has been further decreased from approximately 34.5% to approximately 32.72% and net proceeds of approximately RMB33,939,000 were received for the disposal of 13,759,183 shares of O-Net. This transaction has resulted in the recognition of an amount of RMB152,359,000 of gain on deemed partial disposal and partial disposal of interests of an associate.

The Group maintains its significant influence on O-Net and the investment in O-Net is still accounted for as the interests in associates upon the listing of O-Net.

6. FINANCE COSTS

	For the six months ended 30 June	
	2010	**2009**
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank and other loans, wholly repayable within five years	29,403	16,856
Interest on convertible bonds of a subsidiary	40,326	–
Interest to a fellow subsidiary	–	1,193
Interest on discounted bills without recourse	–	397
Total borrowing costs	69,729	18,446
Less: amounts capitalised	–	(232)
	69,729	18,214

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Staff costs (including directors' remuneration)	1,336,792	293,037
Depreciation of property, plant and equipment	577,197	139,110
Amortisation of prepaid land lease payments (included in administrative expense)	9,885	1,882
Amortisation of other intangible assets (included in administrative expense)	12,023	502
Foreign exchange differences, net	186,948	6,617
Additional provision for product warranties	230,690	13,634
Impairment of trade and bills receivables (included in administrative expense)	–	3,226
Allowance for inventories (included in cost of sales)	113,770	6,503
Loss on disposal of property, plant and equipment	–	9,546
Impairment of available-for-sale investments	4,775	–
Loss on fair value change of equity investments at financial assets at fair value through profit or loss	2,325	–
Loss on disposal of intangible assets	93	–

8. INCOME TAX EXPENSE

	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Current tax:		
– Hong Kong Profits Tax	5,485	3,246
– PRC Enterprise Income Tax ("EIT") and overseas income tax	155,674	11,626
	161,159	14,872
Deferred tax – current period	(1,793)	(733)
Total tax charge for the period	159,366	14,139

8. INCOME TAX EXPENSE (continued)

(a) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the period.

(b) PRC EIT

The subsidiaries established in the PRC are subject to the PRC EIT at rate of 25%. Certain of the subsidiaries of the Group are approved to be high technology enterprises and income tax is calculated at a rate of 18% of the estimated assessable profit for the year. In accordance with the relevant income tax regulations of the PRC, certain subsidiaries are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation after offsetting prior year tax losses, followed by a 50% reduction in the PRC EIT for the next three years.

Under the New Law promulgated by the PRC government by Order No. 63 of the President of the PRC on 16 March 2007 and Implementation Regulation issued by the State Council of the PRC on 6 December 2007, the PRC EIT rate of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%). The relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% (2009: 15% to 25%).

9. DIVIDENDS

A dividend of RMB12 cents per share (2009: RMB5.5 cents) was paid to shareholders as the final dividend for 2009 on 18 August 2010.

The board of directors of the Company does not recommend the payment of an interim dividend to shareholders in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the period attributable to owners of the Company of approximately RMB237,018,000 (six months ended 30 June 2009: RMB130,179,000) and on the weighted average number of 1,197,742,000 (six months ended 30 June 2009: 1,197,742,000) ordinary shares in issue during the period.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired property, plant and equipment with a cost of approximately RMB811,028,000 (2009: RMB64,807,000) and certain of leasehold land and buildings approximately RMB93,415,000 was transferred to investment properties.

Property, plant and equipment with net book value of RMB21,979,000 were disposed of by the Group during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB17,042,000), resulting in a net gain on disposal of approximately RMB3,170,000 (net loss for six months ended 30 June 2009: RMB9,546,000).

12. INVESTMENT PROPERTIES

During the six months ended 30 June 2010, certain of property, plant and equipment and prepaid land lease payments, amounting to approximately RMB93,415,000 and RMB5,536,000 respectively, were transferred to investment properties due to the change in intention for holding the properties as rental earning.

At 30 June 2010, the directors estimated that the carrying amounts do not differ significantly from that which would be determined using fair value at the reporting date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

13. TRADE AND BILLS RECEIVABLES

The Group's sales are on credit terms from 30 to 120 days and certain of its export sales are on letters of credit or documents against payment.

An aged analysis of the trade and bills receivables, based on the invoice date and net of provision, is as follows:

	30 June 2010 (Unaudited) RMB'000	**31 December 2009** (Audited) RMB'000
Within 90 days	14,788,100	14,096,885
91 to 180 days	525,467	257,420
181 to 365 days	55,910	34,699
	15,369,477	14,389,004

14. ASSETS AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

For the period ended 30 June 2010

On 24 June 2010, the Group entered into the equity transfer agreement with an independent third party to dispose of its equity interest together with the loan in Great Wall Broadband Network Service Company Limited ("GWBNS"), an associated company of the Group, at an aggregate consideration of approximately RMB323,798,000.

However, pursuant to the announcement of the Company dated 27 July 2010, the Group received a letter from CITIC Network Co., Ltd on 26 July 2010 ("CITIC Network"), which informed the Group that it would exercise its preemption right in respect of the disposal of the equity interest in accordance with the Articles of Association of GWBNS and the Equity Transfer Agreement would become void and null. Pursuant to the provisions of the Article of Association of GWBNS, CITIC Network will acquire the equity interest and the loan from the Group on the same terms and conditions as those set out in the Equity Transfer Agreement previously entered into between the Group and the independent third party.

With reference to the announcement of the Company dated 11 August 2010, the Group entered into the equity transfer agreement with CITIC Network to dispose its 50% equity interest and the loan in GWBNS at a consideration of approximately RMB323,798,000. Upon the completion of the disposal on 23 August 2010, the Group ceased to have any interest in the associate.

The carrying amount of the associate and loan to the associate have been classified as assets held for sales. The net proceeds of the disposal are expected to exceed the net carrying amount of the relevant assets and liabilities, no impairment loss has been recognised.

The carrying amount of the relevant assets of the associate as at 30 June 2010 are as follow:

	30 June 2010 (Unaudited) RMB'000
Assets:	
Carrying amount of the interests in associates	80,120
Loan to associate, net of impairment	1,270
	81,390

For the year ended 31 December 2009

On 28 December 2009, the Group entered into the share transfer agreement with a fellow subsidiary of the Company, pursuant to which the Group conditionally agreed to transfer 69.41% equity interest in subsidiaries. The subsidiaries were disposed on 31 March 2010 and the details as set out in note 22.

15. TRADE AND BILLS PAYABLES

The trade and bills payables are normally settled on terms of 30 to 90 days. An aged analysis of the trade and bills payables, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 90 days	18,621,555	13,177,026
91 to 180 days	1,764,421	1,523,589
181 to 365 days	17,262	45,237
Over 365 days	18,264	43,921
	20,421,502	14,789,773

16. BANK AND OTHER LOANS

During the current period, the Group obtained new bank loans amounting to approximately RMB1,644,593,000 (30 June 2009: RMB1,168,646,000) and repaid the bank loans amounting to approximately RMB1,053,351,000 (30 June 2009: RMB905,970,000).

17. CONVERTIBLE BONDS OF A SUBSIDIARY

The Group's subsidiary, TPV, issued convertible bonds in the principal amount of US$211 million to Koninklijke Philips Electronics N.V. on 5 September 2005 as part of the purchase consideration for a business combination.

The bonds mature five years from the issue date at their principal amount of US$211 million and can be converted into TPV's ordinary shares at the holder's option at a conversion price HK$5.241 (approximately RMB4.65) per share. The conversion price will be subject to adjustment to subdivision or consolidation of shares, bonus issues, rights issues, distribution of reserves, any dividend payment(s) in excess of the dividend payout ratio cap, capital reduction and other dilutive events.

The fair value of the liability component and the equity conversion component were determined at the time of the issuance of the bonds.

At the time of issuance, the fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The equity conversion component is included in the equity of the subsidiary.

17. CONVERTIBLE BONDS OF A SUBSIDIARY (continued)

The convertible bonds recognised in the condensed consolidated statement of financial position are calculated as follows:

	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Equity component	–	–
Liability component		
Balance at 1 January	1,428,541	–
Interest expense *(Note 6)*	40,326	–
Interest paid	(24,011)	–
Exchange realignment	(7,847)	–
Balance at 30 June	1,437,009	–

The fair value of the liability component of the convertible bonds as at 30 June 2010 amounted to approximately RMB 1,438,340,000 (31 December 2009: RMB1,414,687,000). The fair value was calculated by using cash flows discounted at a rate of 5.80% (31 December 2009: 7.42%) per annum.

18. PROVISIONS FOR PRODUCTS WARRANTIES

	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
At 1 January	501,855	46,239
Additional provision recognised	230,690	13,634
Amounts utilised during the period	(222,070)	(10,871)
Amounts reversed during the period	–	(656)
Exchange realignment	(2,651)	(629)
At 30 June	507,824	47,717

The Group provides warranties to its customers on certain products, under which faulty products are repaired or replaced. The amount of the provisions for the warranty is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

19. SHARE CAPITAL

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Authorised, issued and fully paid:		
743,870,000 state-owned legal person shares of RMB1.00 each	743,870	743,870
453,872,000 overseas listed foreign invested shares of RMB1.00 each	453,872	453,872
	1,197,742	1,197,742

20. SHARE OPTION SCHEME OF A SUBSIDIARY

The Company has no share option scheme but the Company's subsidiary, TPV, has issued equity settled share-based payments to certain employees. Details of the share options outstanding during the current period are as follow:

	Number of share options
Outstanding at 1 January 2010	21,358,026
Granted during the period	–
Exercised during the period	–
Lapsed during the period	(470,000)
Outstanding at 30 June 2010	20,888,026

21. DEEMED DISPOSAL OF INTEREST OF A SUBSIDIARY THAT DOES NOT RESULT IN LOSING CONTROL

On 28 January 2010, one of the major subsidiaries of the Group, TPV, entered into the subscription agreement with a third party pursuant to which TPV has conditionally agreed to allot and issue an aggregate of 234,583,614 shares to the third party. The allotment was completed on 16 March 2010. Upon completion of subscription agreement, the aggregate interest in TPV held by the Group was diluted from approximately 27.02% to 24.32%. The amount of approximately RMB14,994,000 transferred to non-controlling interests has been recognised directly in equity.

22. DISPOSAL OF SUBSIDIARIES

On 28 December 2009, the Group entered into the share transfer agreement with China National Software and Service Co. Ltd. ("China Software"), a fellow subsidiary of the Company, pursuant to which the Group agreed to transfer its entire 69.41% equity interest in Great Wall Computer Software and Systems Incorporation Limited and its subsidiaries ("Great Wall Software Group") for a consideration of approximately RMB92,472,000 to China Software. On 31 March 2010, the share transfer agreement was completed and cash consideration of RMB92,472,000 was received by the Group. The net assets of Great Wall Software Group at the date of disposal were as follows:

	At 31 March 2010 (Unaudited) RMB'000
Net assets disposed of	130,750
Less: non-controlling interests	(39,996)
	90,754
Gain on disposal	1,718
Total consideration	92,472
Satisfied by:	
Cash	92,472
Net cash inflow arising from disposal:	
Cash consideration received	92,472
Bank balances and cash disposed of	(57,004)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	35,468

23. CORPORATE GUARANTEES

	30 June 2010 (Unaudited) RMB'000	**31 December 2009** (Audited) RMB'000
Guarantees given to banks in connection with bank facilities granted to:		
An associate	570,385	570,385
Third parties	50,978	60,384
	621,363	630,769

24. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group had total future minimum lease receivables under non-cancellable operating leases with its tenants in respect of land and buildings falling due as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within one year	60,892	90,135
In the second to fifth years, inclusive	89,115	87,256
After five years	8,387	5,920
	158,394	183,311

(b) As lessee

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within one year	36,955	71,149
In the second to fifth years, inclusive	88,755	98,885
After five years	59,570	82,519
	185,280	252,553

25. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Contracted, but not provided for:		
Leasehold land and buildings	191,277	260,012
Plant and machinery	136,066	2,784
	327,343	262,796

26. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Ultimate holding company:			
Sales of products	(i)	283	–
Immediate holding company:			
Sales of products	(i)	192	–
License fees	(ii)	1,745	1,162
Associates:			
Sale of products	(i)	2,230,938	7,565
Rental income	(iii)	5,331	26,040
Interest income	(iv)	–	1,926
Processing fee income	(v)	1,904	–
Purchases of components and parts	(vi)	5,913	–
Commission fees	(viii)	5,720	–
Fellow subsidiaries:			
Sale of products	(i)	32,558	57,255
Rental income	(iii)	12,653	6,754
Purchases of components and parts	(vi)	110	177,364
Interest expenses	(vii)	–	1,193
Subsidiaries' substantial shareholders and their subsidiaries:			
Sales of finished goods	(viii)	2,388,236	–
Purchases of raw materials	(viii)	5,578,329	–

26. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) The sales to ultimate holding company, immediate holding company, associates and fellow subsidiaries were made according to the published prices and conditions offered to major customers of the Group.

(ii) The license fees paid to the immediate holding company was based on a rate of 0.15% of the revenue from the products under the "Great Wall" brand for both periods.

(iii) The rental income from the property leased to associates and fellow subsidiaries was made according to the market rate offered to third parties.

(iv) The interest income from associates was based on an interest rate of 5.05% per annum for the six months ended 30 June 2009.

(v) Processing fee income from associates was made on terms mutually agreed between both parties.

(vi) The purchases from associates and fellow subsidiaries were made according to published prices and conditions offered by associates and fellow subsidiaries to their major customers.

(vii) The interest expense to a fellow subsidiary was based on an interest rate of 5.35% per annum for the six months ended 30 June 2009.

(viii) The transactions were conducted in the normal course of business at prices and terms as agreed between the transacting parties.

(b) Outstanding balances with related parties:

(i) The balances with immediate holding company, fellow subsidiaries and associates are unsecured, interest free and repayable on demand.

(ii) The Group had outstanding trade receivables from associates for the six months ended 30 June 2010 of approximately RMB36,844,000 (31 December 2009: RMB62,538,000) as at the end of the reporting period.

The Group had outstanding trade payables to associates for the six months ended 30 June 2010 of approximately RMB1,263,000 (31 December 2009: RMB36,473,000) as at the end of the reporting period.

26. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(iii) Receivables from and payables to TPV's associated companies of approximately RMB1,386,172,000 (31 December 2009: RMB1,157,079,000) and RMB4,876,000 (31 December 2009: nil) were presented in the condensed consolidated statement of financial position in trade receivables and trade payables respectively.

Receivables from TPV's substantial shareholders and their subsidiaries of approximately RMB330,683,000 (31 December 2009: RMB1,534,856,000) were presented in the condensed consolidated statement of financial position in trade receivables.

Payables to TPV's substantial shareholders and their subsidiaries of approximately RMB1,555,130,000 (31 December 2009: RMB1,580,947,000) and Nil (31 December 2009: RMB27,313,000) were presented in the condensed consolidated statement of financial position in trade payables and other payables and accruals respectively.

(c) The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the six months ended 30 June 2010 and 30 June 2009, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchase of computers, electronic parts and computer-related products. The directors of the Company consider that transactions with other State-owned Enterprises are activities in the ordinary course of business, and that dealings of the Group have not been significantly controlled or owned by the PRC government. The Group has also established pricing policies for products and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

27. CONTINGENT LIABILITIES

The Group had certain outstanding litigations as recorded by TPV, the details of which are set out as follow:

(a) In January 2007, a third party company filed a complaint in the United States of America against TPV, one of its associated companies and certain other third party companies. The complaint claims damages related to alleged infringement of a US Patent in respect of technology to decode Program Map Information in the Digital TVs ("Patent I").

27. CONTINGENT LIABILITIES (continued)

(a) (continued)

As far as TPV and its associated company are concerned, it is alleged among other matters that:

(i) They have directly infringed, contributed to and/or actively induced infringement of the Patent I and are continuing to directly infringe, contribute to and/or actively induce infringement by making, using, importing, offering for sale, soliciting sales by others of, enabling or assisting with sales by others of, and/or selling in the United States of America, including, without limitation, ATSC TVs under the AOC brand name, which are covered by one or more claims of the Patent I; and

(ii) As a consequence of their infringement complained of herein, the plaintiff had been damaged and will continue to sustain damages by such acts in an amount to be determined at trial and will continue to suffer irreparable loss and injury.

The directors are of the opinion that while the proceedings were stayed to the extent TPV is concerned according to the Court's Stipulation and Order of 23 October 2007, it is not probable to assess the outcome of the litigation for the time being. Even if the outcome of the litigation turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

(b) In November 2007, the U.S. International Trade Commission instituted an investigation based on a complaint filed by a third party against TPV, one of its associated companies and other third party companies. The claims of the complaint related to alleged infringement of Patent I.

As far as TPV and its associated company are concerned, it is alleged among other matters that:

(i) Their unfair acts include the unlicensed importation, sale for importation and/or sale after importation of digital televisions and products containing the same in the United States of America. The accused televisions employ patented technology related to Patent I; and

(ii) The complainant requested for issuance of limited exclusion order prohibiting the entry into the United States of America all of respondents' imported televisions and products containing digital television covered by Patent I; and cease and desist order stopping importing, offering for sale, marketing, advertising, demonstrating, warehousing, distributing, selling and/or using such imported products of respondents in the United States of America.

The directors are of the opinion that although the Enforcement Proceeding is still ongoing before the U.S. International Trade Commission, on 26 May 2010 the U.S. Court of Appeals for the Federal Circuit has reversed an earlier decision made by the U.S. International Trade Commission and rules in favour of TPV. The directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

27. CONTINGENT LIABILITIES (continued)

(c) In December 2008, a third party company filed a complaint in the United States of America against TPV, one of its associated companies and other third party companies. The complaint concerns claims of damages related to alleged infringement of certain patents in respect of technology of the manufacture of computer monitor ("Patent II").

As far as TPV and its associated company are concerned, it is alleged among other matters that:

(i) They manufacture, assemble, service, including unlicensed monitors, and sell those products through the United States of America, and know, expect, and intend that the products, including unlicensed monitors, will be sold in the market of the United States of America.

(ii) As a consequence of the infringement, the plaintiff has been damaged and would continue to sustain damages unless the court issues an injunction, enjoining them from further infringement of said patents.

The directors are of the opinion that while the proceedings are still ongoing, it is not probable to assess the outcome of the case for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

(d) In January 2009, a third party company filed a complaint in Germany against TPV, one of its associated companies and other third party companies. The complaint concerns claims of damages related to alleged infringement of certain patents in respect of technology of the manufacture of computer monitor ("Patent III").

As far as TPV and its associated company are concerned, it is alleged among other matters that:

(i) They had had infringed, actively induced, contributed to the infringement of Patent III by making, using, causing to be used, offering to sell, selling, causing to be sold, importing and/or causing to be imported monitors in Germany; and

(ii) As a consequence of the infringement, the plaintiff has been damaged and would continue to sustain damages unless the court grants an award of damages to it covering reasonably attorneys' fees, costs and expenses that incurred by it for pursuing this action.

The directors are of the opinion that while the proceedings are still ongoing, it is not probable to assess the outcome of the investigation for the case being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

27. CONTINGENT LIABILITIES (continued)

(e) In October 2009, a third party company filed a complaint in the United States of America against TPV one of its associated companies and certain other third party companies. The complaint concerns claims of damages related to alleged infringement of certain patents in respect of technology of the manufacture of digital televisions and monitors ("Patent IV").

As far as TPV and its associated company are concerned, it is alleged among other matters that:

(i) They manufacture, assemble, service, including unlicensed digital televisions and monitors, and sell those products through the United States of America, and know, expect, and intend that the products, including unlicensed digital televisions and monitors, will be sold in the market of the United States of America.

(ii) As a consequence of the infringement, the plaintiff has been damaged and would continue to sustain damages unless the court issues an injunction, enjoining them from further infringement of said patents.

On 26 July 2010, the case is resolved through settlement among the parties, and the parties are currently moving to dismiss the proceedings. The directors consider that the settlement does not have any material financial impact on the Group as a whole.

(f) In November 2009, a third party company filed a complaint in the United States of America against TPV and certain other third party companies. The complaint concerns claims of damages related to indemnification arising out of alleged infringement of certain patents in respect of technology of the manufacture of computer monitors.

As far as TPV is concerned, it is alleged among other matters that:

(i) TPV is a merchant regularly dealing in goods of the kind of accused products and has breached its warranty of title and freedom from a claim of patent in the United States of America.

(ii) The third party company is entitled to indemnification from TPV for any liabilities it incurs, including reasonable attorneys' fees, settlement amount or any awarded damage.

The directors are of the opinion that while the proceedings are still ongoing, it is not probable to assess the outcome of the case for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

27. CONTINGENT LIABILITIES (continued)

(g) In April 2010, in light of threatened claim for infringement of patents, TPV and one of its associated companies filed a complaint in the United States of America against three third party companies. Under this complaint, they seek a judicial declaration from the court that they have not infringed the patents of certain digital television technologies ("Patent V") and/or the Patent V are invalid and unenforceable.

The directors are of the opinion that while the complaint is not served yet, it is not probable to assess the outcome of the case for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole and that an appropriate of provision has been made, if any.

(h) In April 2010, the U.S. International Trade Commission instituted an investigation based on a complaint filed by a third party company against TPV, one of its associated companies and other third party companies. The claims of the complaint related to alleged infringement of Patent IV.

On 26 July 2010, the case is resolved through settlement among the parties, and the parties are currently moving to terminate the investigation. The directors consider that the settlement does not have any material financial impact on the Group as a whole.

28. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 June 2010, the Company and its subsidiaries, China Great Wall Computer (Shenzhen) Co., Ltd. and Shenzhen Kaifa Technology Limited (collectively, "Vendors"), entered into an equity transfer agreement ("Equity Transfer Agreement") with Cheng Dr. Peng Telecom & Media Group Co., Ltd. to dispose of the 50% equity interest ("Sale Interest") held by the Vendors in aggregate in GWBNS, an associated company of the Group, together with the loan ("Sale Loan") at a total consideration of approximately RMB323,798,000.

As CITIC Network, a shareholder of GWBNS holding 50% equity interest in GWBNS, exercised its preemption right in respect of the Sale Interest on 26 July 2010, the Equity Transfer Agreement became void and null.

Pursuant to the provisions of the articles of association of GWBNS and the PRC company law, CITIC Network agreed to acquire the Sale Interest and Sale Loan on the same terms and conditions as those set out in the Equity Transfer Agreement and accordingly, an equity transfer agreement between the Vendors and CITIC Network was made on 11 August 2010.

Upon completion of the transfer on 23 August 2010, the Group ceased to have any interest in GWBNS. Details are disclosed as note 14.

28. EVENTS AFTER THE REPORTING PERIOD (continued)

(b) In July 2010, a third party company filed a complaint in the United States of America against a subsidiary of the Group, TPV.

The complaint concerns claims of compensation related to indemnity obligations as provided in an agreement between the parties.

The directors of the Company are of the opinion that while the complaint is not served yet, it is not probable to assess the outcome of the case for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

(c) In July 2010, a third party company filed a complaint in the United States of America against a subsidiary of the Group, one of its associated company and another third party company.

The complaint concerns claims of damages related to alleged infringement of certain patents in respect of technology of the manufacture of certain televisions ("Patent VI").

As far as the subsidiary of the Group and its associated company are concerned, it is alleged among other matters that:

(i) They have been infringing and continue to infringe the Patent VI, and contributing to and actively inducing the infringement of Patent VI by others in the United States of America.

(ii) As a consequence of the infringement, the plaintiff has been damaged and will continue to sustain damages unless the court enjoins them from further infringement of Patent VI.

The directors of the Company are of the opinion that while the complaint is not served yet, it is not probable to assess the outcome of the case for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

CHAIRMAN'S STATEMENT

Business Review

In the first half of year 2010, while the global economy was gradually recovering with continual obstacles, the Group focused on the core mission of strengthening and enlarging its principal operations and fully enhancing developing quality and economic effectiveness of enterprise. The Company has set to promote growth by adjusting structure, improving standard, enhancing management and promoting development. It put forth efforts in strengthening its two development drivers of self-independent business and EMS electronic manufacturing service segment, in advancing the self-independent brand business towards high-end development and the shift of EMS segment to upstream business, which has achieved pleasant operating results. During the six months ended 30 June 2010, the Group realized a revenue of RMB49,965,686,000, representing a growth of 604% and an aggregate of profits RMB798,278,000, representing a growth of 259% as compared with the corresponding period last year.

I. *Expediting development of self-independent brand business*

Starting from this year, the Group has seized the integrated growth opportunity of the new generation network economy and 4CI. It has been expediting to adjust the product structuring, strengthening the development of self-independent brand business, and has yielded good effects.

The computer and mobile internet product segment focuses on differentiation. The Group kept on speeding up the development of self-design and industrialization capability of tablet PCs, All-in-one PCs, notebooks, 4C integrated products, digital household products, new electronic consuming products and other mobile internet terminal equipments, and forging technology and product series with self-independent characteristics. In April 2010, the Group forestalled others domestically to launched Gpad and Gbook, the two major self-independently researched and developed, series of tablet PC product; and launched a portable digital TV product that first adopts CMMB standard nationwide and worldwide.

The monitor business segment focuses on high-end development. The Group centered on reinforcing and enhancing its leading position in global monitoring terminal development and manufacturing segment and thus reinforced industry chain coordination. Besides, leveraging the internal industry chain resources of China Electronics Corporation Holdings Company Limited, the Group continued expediting all-round coordination among technology R&D, purchase, manufacture, sales channels, production management and customer services, etc. of relevant enterprises within the Group, giving full play of the synergic effects of the Group's industry chain resources as the self-independent monitor and LCD TV businesses are rapidly and stably developing.

The power supply business segment focuses on diversification. The Group aimed to develop its power supply business into a first tier international brand. Based on the advantage of standing desktop power supply, the Group strengthened the R&D and sped up the upgrade of product structure, vertically shifting to high-end development, horizontally expanding into larger areas. In the first half year of 2010, the Group's power supply business has achieved remarkable results in self-independent R&D and industrialization in respects of server power supply, new consumer electronic power supply, LED switching power supply. As the business proportion of its non-desktop power supply over the power supply reaching 50%, the Group's power supply business managed to retain its leading position in the industry domestically.

The intelligent measurement and financial payment terminal business focuses on systematization. The Group kept on expediting to enhance capabilities of integrated solution and adapting to the informatization needs in society. In the first half of the year, the Group's Smart Meters business was in steady and sound development while the financial payment terminal business in rapid development with a growth of 53% in the sales revenue of tax control machine and relevant products as compared with the corresponding period last year.

II. *Promoting the transformation of EMS business*

During the first half of the year, centered on building EMS core ability platform and competitive operating systems, the Group focused on professionalism, systematization and vertical integration. It paid close attention to extending towards upstream and downstream of the product value chain. While upgrading its advanced manufacturing ability, the Group kept on enhancing the whole-value chain service capability in respects of product design, new product introduction, logistics and customer service and the likes, and therefore won broader customers' recognition and trust, finally significantly enlarging the business scale of the Company's electronic manufacturing service business.

In the first half of the year, the Group's growth in the income from hard disk magnetic heads business, hard disk circuit board business, disk substrates business, memory sticks sales and USB stick sales reached 40%, 29%, 33%, 301% and 637% respectively as compared with the corresponding period last year.

III. *Expanding into new business areas*

During the first half of the year, the Group conducted research and study on the seven major strategic new industries designated by the State, namely energy saving and environmental protection, emerging information industry, biology industry, emerging energy, emerging energy motors, manufacture industry of high-end equipments and new materials, and actively took advantage of the new economic drivers fuelled by their rapid development as well as the new development opportunities associated with the resultant integration of informatization and industrialization to accelerate deployment and planning.

Regarding the solar energy business segment, the Group grasped the chances brought by the State's advocating of emerging energy development to further its market expansion efforts, such that during the first half of the year, the manufacture business of inverters grew rapidly and the sales volume for the six months ended 30 June 2010 represented 2.5 times of the total sales volume since operation in May 2009 to the end of last year, making the Group the largest inverter manufacturer nationwide. Meanwhile, the Group also developed the solar panel business by making good use of customer resources, which was developing well.

Regarding the environmental battery segment, Beihai Great Wall Energy Technology Company Limited (北海長城能源科技股份有限公司), which specialized in the R&D, production and sale of energy saving batteries, was incorporated in Beihai, Guangxi by the Group in December 2009. The company commenced its mass production on 10 June 2010. Through close and complementary alliance with upper-stream enterprises engaged in the sale of materials, well-known enterprises engaged in the R&D and manufacture of batteries and enterprises engaged in the manufacture of terminals like computers, consumer electronic products and cell phones, the company had both its capability and orders grown steadily and rapidly.

IV. *Significant enhancement of brand value by winning awards*

During the Reporting Period, the Group and its members won a number of awards, which led to a significant enhancement of the overall brand value of the Group.

In the 2010 Top 100 Electronic Information Enterprises in China (the twenty-fourth) appraisal organized by the Ministry of Industry and Information Technology, the Group had the honor to win the title consecutively and was ranked the tenth of the Top 100 Electronic Information Enterprises in China. In the 2010 Top 100 Global Technology Enterprises and Top 100 Technology Enterprises in China appraisals, which were jointly organized by the "Business Week" in U.S., the "Digital Time Magazine" in Taiwan and the "IT Manager World" in Mainland China in June 2010, the Group and three of its members enterprises had the honor to win the title of Top 100 Technology Enterprises in China, of which the Group ranked the eighth, China Great Wall Computer (Shenzhan) Co., Ltd. ("CGC") ranked the ninth, TPV Technology Limited ("TPV") ranked the twenty-eighth and Shenzhen Kaifa Technology Co., Ltd. ("Great Wall Kaifa") ranked the fifty-seventh. CGC even had the honor to be elected as one of the Top 100 Global Technology Enterprises in 2010 and ranked the fortieth, becoming one of the eight enterprises in Mainland China shortlisted in the List of Top 100 Global Technology Enterprises.

Outlook

In the second half of 2010, the Group will continue to focus on the core mission of strengthening and expanding its main businesses and enhancing comprehensively the quality of corporate development and economic effectiveness and will further strengthen the two development drivers, i.e. self-independent brand business and EMS segment. The Group will also implement the technology-first strategy with emphasis on conducting self-independent R&D and transforming long-term technology innovation to the driver and source for the core competitiveness of the Company so as to drive high-end development of self-independent brand business, provide technological support to the shift of EMS segment towards upstream, and promote the continuous optimization and upgrade of product structure and the rapid change in development path through innovation. Meanwhile, it will set up the "five major systems", namely a diversified capital security system, an open system of technology innovation, an internationalized talent retaining system, a quick-response system for marketing and customer services, deployment system for resource optimization of industry base in order to lay a solid foundation for great strides in development.

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the staff of the Group for their hard work, as well as to all shareholders for their long-term support to the Company.

By order of the Board
Great Wall Technology Company Limited
Liu Liehong
Chairman

Shenzhen, PRC
30 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the six months ended 30 June 2010 (the "Reporting Period"), the Group realised a turnover of RMB49,965,686,000, representing a growth of 604% as compared to the corresponding period of last year. Interim profit after tax attributable to the shareholders of the Company amounted to RMB237,018,000 during the Reporting Period as compared to the interim profit of RMB130,179,000 for the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2010, the Group's total cash and cash equivalent amounted to RMB3,860,820,000 and the Group's total bank borrowings amounted to RMB2,397,577,000.

The structure of such borrowings was as follows:

(1) 51% was denominated in Renminbi and 49% was denominated in US dollars.

(2) 72% was made on fixed interest rates.

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

As at 31 December 2009, the Group's total cash and cash equivalent amounted to RMB4,050,766,000 and the Group's total bank borrowings amounted to RMB1,773,011,000.

The structure of such borrowings was as follows:

(1) 18.9% was denominated in Renminbi and 81.1% was denominated in US dollars.

(2) 99% 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 2010, the Group's total bank borrowings and shareholders' equity were RMB2,397,577,000 and RMB4,685,243,000 respectively, as compared to RMB1,773,011,000 and RMB4,441,871,000 respectively as at 31 December 2009.

The gearing ratio as at 30 June 2010 was 51.17%. The gearing ratio as at 31 December 2009 was 39.92%. The gearing ratio is defined as the ratio between total bank borrowings and shareholders' equity.

Current Ratio and Working Capital

As at 30 June 2010, the Group's current assets and current liabilities were RMB36,120,936,000 and RMB28,255,134,000 respectively, while the Group's working capital was RMB7,865,802,000. The current ratio was 1.28.

As at 31 December 2009, the Group's current assets and current liabilities were RMB28,604,935,000 and RMB22,059,540,000 respectively, while the Group's working capital was RMB6,545,395,000. The current ratio was 1.30.

Charge of Group Assets

As at 30 June 2010, the Group had pledged to banks its bank savings of approximately RMB457,058,000 to secure general banking facilities for the Group. As at 30 June 2009, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

As at 31 December 2009, the Group had pledged to banks its bank savings of approximately RMB339,900,000 as a pledge of banks' general finance for the Group. As at 31 December 2009, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

Disposal of subsidiary/associated company

On 28 December 2009, the Company and CGC, each entered into a share transfer agreement ("Share Transfer Agreements") with China National Software and Service Co. Ltd. ("China Software") to transfer to China Software their respective 34.9% and 34.51% equity interest in Great Wall Computer Software and Systems Incorporation Limited ("Great Wall Software") at a consideration of RMB46,501,600 and RMB45,970,500 respectively. Shareholders' approval of the transactions contemplated thereunder was obtained at the extraordinary general meeting of the Company held on 12 March 2010. Great Wall Software ceased to be a subsidiary of the Company and the Company no longer have any equity interest in Great Wall Software.

On 24 June 2010, the Company, CGC and Great Wall Kaifa entered into an equity transfer agreement ("Equity Transfer Agreement") with Cheng Dr. Peng Telecom & Media Group Co., Ltd. to disposal of the 50% equity interest ("Sale Interest") held by them in aggregate in Great Wall Broadband Network Service Co., Ltd. ("GWBNS"), an associated company of the Company, together with the loan in the amount of RMB281,537,891.41 ("Sale Loan") at a total consideration of RMB323,798,000. As CITIC Network Co., Ltd. ("CITIC Network"), a shareholder of GWBNS holding 50% equity interest in GWBNS, exercised its preemption right in respect of the Sale Interest on 26 July 2010, the Equity Transfer Agreement became void and null. Pursuant to the provisions of the articles of association of GWBNS and the PRC company law, CITIC Network agreed to acquire the Sale Interest and Sale Loan on the same terms and conditions as those set out in the Equity Transfer Agreement and accordingly, an equity transfer agreement between the Company, CGC, Great Wall Kaifa and CITIC Network was made on 11 August 2010. Upon completion of the transfer on 23 August 2010, the Group ceased to have any interest in GWBNS.

Employees

As at 30 June 2010, the number of employees of the Group was approximately 53,000 (as at 31 December 2009: approximately 16,000). 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

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 2010, 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

Name of Director	Number of Shares held	Approximate percentage of total registered share capital of the relevant entities
Mr. Lu Ming	201,486 shares of CGC (L)	0.0183%
Mr. Tam Man Chi	1,670,817 shares of Great Wall Kaifa (L)	0.13%
Mr. Du Heping	60,000 shares of CGC	0.0055%

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	106,799,381 shares of Great Wall Kaifa *(Note 1)* (L)	8.1%

Note:

1. Broadata (H.K.) Limited ("Broadata") held approximately 8.1% 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 2010, 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 2010, 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 total issued shares
Great Wall Group	State-owned legal person shares	743,870,000	100%	62.11%

Save as disclosed above and so far as the Directors, supervisors and chief executives of the Company are aware, as at 30 June 2010, the Company had not been notified by any other person (other than the Directors, supervisors or chief executives of the Company) who 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.

Corporate Governance

The Company, currently and within the Reporting Period, has applied the principles and complied with the provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Audit Committee

The 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. The Audit Committee comprises three independent non-executive directors, namely Mr. Yao Xiaocong (the chairman of Audit committee), Mr. James Kong Tin Wong and Mr. Chen Zhiya.

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 consolidated financial statements of the Group for the six months ended 30 June 2010 and recommended its adoption by the Board.

Model Code for Securities Transactions by Directors

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 as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to all the directors and supervisors of the Company and all of them have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

Purchase, Sale and Repurchase of the Listed Securities of the Company or any of its Subsidiaries

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2010.

By Order of the Board
Great Wall Technology Company Limited
Liu Liehong
Chairman

Shenzhen, PRC, 30 August 2010