

BUSINESS REVIEW

The Group's business covers four main areas, namely computer components, computer manufacturing, software and system integration and broadband network services. The Group's computer parts and components products include hard disk drives (abbreviated as "HDDs") magnetic heads, HDD substrates, HDDs, monitors, switching power supplies, cards etc.. In the area of computer manufacturing and its relevant businesses, products mainly include personal computers (abbreviated as "PCs"), notebook computers, servers, network smart electric meters, and tax controlling cashing machines etc. In the field of software and system integration, the Group is principally engaged in the design, sale and contracting of software etc. Regarding broadband network services, the Group is principally engaged in the connection to broadband network and relevant value-added services. The above businesses were mainly attributable to subsidiaries and associates of the Company.

During the reporting period (abbreviated as "Period") Period, the Group has steadfastly employed scientific development perspective and focused on economics benefits with sustainable development as ultimate goal. Through the enhancement of management, strengthening of technological innovations, optimization of product structure and exploration of marketing channels, the Group has realized stable growth in both production capacity and profits. During the Period, the Group had realized sales revenue of RMB14.925 billion with an increase of 30.70% from last year; realized a net profit of RMB322 million with an increase of 59.35% from last year.

COMPUTER PARTS AND COMPONENTS

The Group's major products in this area include HDD magnetic heads, HDD substrates, HDDs, power supplies and monitors. These products are the major contributor to the Group's profits. During the Period, in view of the international market's demand for faster upgrade and higher quality of computer parts and components, the Group has promptly kept track with the market demand and capitalized the opportunities in the industry. Through the optimization of industry chain, adjustment to product structure, strengthening technological innovations and expansion of production scale, the Group's economic benefits has increased substantially. The Group's computer parts and components business had realized sales revenue of RMB12.739 billion with an increase of 27.41% from last year.

HDD Magnetic Head

HDD magnetic heads are one of the most important computer parts and components products of the Group. The product is produced and sold by Great Wall Kaifa, a subsidiary of the Company. During the Period, the Group continued to further cooperation with customers in various aspects. In particular, the Group has applied Tunnelling Magneto Resistive (TMR), a new technology, in the manufacturing of magnetic heads, thus successfully broke the limit on the magnetic sheet storage density technology to a single disk capacity of 160G and marked the Group's advance to a new level in the area of magnetic heads production technology. During the Period, Great Wall Kaifa commenced the plan of constructing a new factory in Suzhou. This would create beneficial environment for further expanding its production capacity, lowering production costs and establishing more stable demand and supply relationship with its clients.



Chairman's statement

HDD Substrates

HDD substrates are produced and sold by Kaifa Magnetic, a subsidiary of the Company. During the Period, the market demand for substrates has risen and the Group's sale of substrates reached 79,370,000 pieces and sales volume recorded a year-on-year increase of 94.9%. During the Period, in respect of the production technology of 3.5" HDD substrates, Great Wall Kaifa has imported technology and employed self-own technology, lowered its raw material costs, and achieved remarkable progress in the enhancement of production efficiency and product acceptance rate, thus further strengthening of its products' competitiveness in international market. During the Period, the Group expanded its original production lines and constructed new substrates production base to meet market demand and this established a solid foundation for the Group to become the most competitive substrates manufacturer in the international market.

HDD

The hard disk products of the Group are manufactured and sold by ExcelStor Technology and ExcelStor Great Wall respectively, being subsidiaries of the Group. ExcelStor Technology is the largest HDD manufacturer in China. Products currently manufactured and sold by ExcelStor Technology comprise of six main series, namely GSTOR Security Hard Disk, 3.5" HDD, 2.5" Mobile Hard Disk, Digital Tape Drive, 2.5" HDD and Hard Disk Application Products. ExcelStor Technology possessed various international patented technologies in the field of HDD and its exclusive and pioneer "Security and Encrypted Hard Disk" is well received by the market. ExcelStor Technology is the principal cooperative partner of Hitachi Global Storage Technologies (abbreviated as "Hitachi") in the production of 3.5" hard disk drives and will aggressively expand its scale of production with enterprises like

Hitachi. ExcelStor Great Wall is responsible for overseas R&D and sale of HDD. During the Period, sales of HDD amounted to 13,170,000 units, representing a year-on-year growth of 61.99%.

Switching Power Supplies and Monitors

CGC, a subsidiary of the Group, is a renowned PC power supplies and monitors manufacturer in China. Its products are highly regarded in domestic and also foreign market for their properties and quality. In 2005, in view of the constant changes in monitor market, a series of marketing strategies were deployed for Golden Great Wall monitors. As at 31 December 2005, sale of monitors amounted to 1,720,000 sets, representing a year-on-year increase of 45.33%. The sale of power supplies amounted to 4,290,000 sets, representing a year-on-year increase of 23.11%. At the same time, orders flowed continuously from the United States, South Korea, India, the Middle East and Europe. Sales showed satisfactory growing momentum.

COMPUTER MANUFACTURING AND RELEVANT PRODUCTS

In the field of computer manufacturing and its relevant businesses, the products mainly include "Great Wall" brand desktop computers, notebook computers, servers and network smart electric meters. Those products not only demonstrate the superiority of our "Great Wall", but also represent the technological innovations and high-end development of the Group.



Chairman's Statement

PCs, Notebook Computers

The Group is the owner of the well-known "Great Wall" brand for desk-top computers and notebook computers in China. During the Period, CGC pursued a "high-end" development strategy and sought to upgrade and transform through cooperation. During the Period, CGC, in collaboration computer with Intel, NVIDIA and Gamania, launched T50 in Beijing. T50 is the first gaming notebook computer with an affordable selling price of RMB10,000 in the country. With superior configuration, T50 notebook computer is designed for the latest development trend of IT applications and targeted digital entertainment and household computer market with rapid growth. T50 fully embodied the development ideology of meeting international standards and brand rejuvenation of Golden Great Wall and was the most powerful mobile computer product that hit the market for the year.

Network electric meters

Great Wall Kaifa has now become one of the greatest remote control electric meters R&D manufacturers in China. It pioneered the E-METER network electric meters concept and led the trend in international network electric meters development. It successfully completed the R&D of and manufactured various lines of product such as anti-tamper meters, prepayment meters, multi-tariff meters and remote control meters, totaling of 50 models. Its products saw industry-wide applications in the power industry and were exported to Europe, South Africa and Southeast Asia. Great Wall Kaifa is the largest network electric meters exporter amongst domestic manufacturers and is one of the world's largest remote control information electric meter R&D manufacturers.

Servers

The "Great Wall" brand server is a famous brand in China. In May 2005, CGC launched the Qingtian B9000 series of double-way high-density blade servers based on teraby tes-link technology and modular design. The launch of the B9000 series is a sign of CGC's entry into a new era.

During the Period, CGC and IBM International Holdings B.V. (abbreviated as "IBM") entered into a formal contract in relation to the establishment of International System Technology Company (abbreviated as "ISTC"), which has commenced production. On 8 August 2005, ISTC held a grand opening ceremony in Shenzhen to celebrate the completion of and commenced production in its brand new manufacturing base in Futian Free Trade Zone. This newly completed ISTC manufacturing base is one of the largest and most technologically advance manufacturing bases of IBM and is equipped with a complete product range. Its daily production capacity could reach 5,000 to 6,000 sets. Its current product lines include: the highly acclaimed X series, the brand new P series equipped with industry-leading technologies (which include the new Open Power series) and RSS (Retail System Solutions) series with opportunities to further expand its product lines.

SOFTWARE AND SYSTEM INTEGRATION:

Service software and system solutions

GWCSS, the subsidiary of the Group, is qualified as an operator of domestic system integration services and a provider of comprehensive application solutions. Its main business is the provision of major application software, high value-added solutions and comprehensive consultancy services to the government, financial industry, and social security sector.



Chairman's statement

During the Period, to develop the scale and competitive edge of its software and system integration business, the Company launched a software resources integration programme with GWCSS as the core. This increased the dissemination of GWCSS through an expansion of scale in respect of industry application, system integration, consulting service, software outsourcing and other fields.

Information Products Design Business

The information products design business is operated by DigiPro, which is a subsidiary of the Group and a sino-foreign joint venture between the Company and Texas Instruments Incorporated (TI), and principally engaged in digitalized product design business.

BROADBAND NETWORK SERVICES

During the Period, GWBNS increased its operating efficiency substantially and reduced its losses by 25.80%, as compared with the same period previous year, to RMB138 million, by pursuing a full-swing end-service strategy, rationalizing its institutions, tightening up cost and expense control, and implementing a series of operating and management measures, such as the adoption of the EBITDA index in appraising subsidiaries.

During the Period, GWBNS had an assets to liabilities ratio of 91.54%, and the guarantee and loan provided by the Company to GWBNS were RMB642 million and RMB232 million respectively, of which RMB16 million was loan interest.

Management and Innovation

Introduction and deployment of modernized management systems is pivotal to the operation and development of advanced computers and relevant products manufacturers. During the Period, the Group actively promoted the idea of management innovations, introduced and implemented overseas advance management models and management systems and

accelerated the implementation of modernized management techniques such as Enterprise Resource Planning (ERP), Industrial Engineering (IE), 6-SIGMA. The Group implemented a number of effective measures, resulting in a significant reduction of overall expenses and more efficient use of funds, as well as an enhancement to international standards in relation to product acceptance rate, labour productivity, and the control of materials wastage and costs.

OUTLOOK FOR 2006

In 2006, scientific development perspective will remain as the guiding principle for the Group's operation and development. The Group will also further optimize its structure, strengthen innovations and management, and cultivate for new growth spot so as to provide solid foundations to become an international renowned high technology computer electronic manufacturing enterprise.

Computer Parts and Components

Regarding its magnetic heads business, the Group will strive to maintain its commanding position in the international magnetic heads market, raise its investment in the R&D of magnetic heads products, capture more market opportunities, enhance its products' added value and aggressively expand into notebook and consumer HDD magnetic heads markets. The Group will also make the newly completed Suzhou magnetic heads production base to become a larger contributor to the Group's sales and profits.

Regarding the development of substrates, the establishment of the world's largest substrates production base is the Group's primary development strategy. In order to meet the boosting market demand and maintain its competitiveness, phase 1 of new substrates production base will complete and commence production in 2006 and planning for phase 2 expansion will commence in the year.



Chairman's Statement

In respect of HDD, the Group will, in accordance with its strategies, capture opportunities presented by the establishment of ExcelStor Hard Disk Technology R&D Center (Beijing) (易拓硬盤技術研發中心(北京)), intensify its R&D of HDD application products, further expand the sale and distribution of 2.5" hard disk products and widely promote self-brand added value products such as GSTOR Security Hard Disks. The Group will also fully utilize its overall edge in resources, expand its production capacity and strengthen its cooperation with multinational enterprises like Hitachi with a view to achieve stable enhancement in the sale and distribution capability of HDD.

In the fields of power supplies and monitors, CGC will continue to expand the production scale of power supplies and monitors, enhance awareness of its brands, increase the OEM proportion in its power supplies and monitors business, increase export of power supplies and monitors, and, while consolidating its status in the domestic market, endeavor to gain a share in the international market.

Computer Manufacturing

Regarding its computer manufacturing business, the Group will continue its strategy of rebuilding and enhancing the Great Wall brand, and, through the cooperation and collaboration with international leaders, continue its strategy of high-end development.

As regards its network smart electronic meters, the Group will boost its efforts to gain further share in both domestic and foreign markets and make it become one of the sustainable and profit making businesses.

Software and System Integration

GWCSS will further its business consolidation and expand its scale. It will implement a series of important measures to perfect its technological innovation systems so as to accelerate the pace of development of this software business.

Broadband Network and Value-added Services

GWBNS will undergo transformation from a small scale broadband access provider to a large scale user-end service provider. Through the capitalization of "last mile" community resources, household users resources and the established network resources, it will, apart from conducting access business, gradually become a user-end service oriented service provider.

GRATITUDE

On behalf of the Board of Directors of the Company, I would like to take this opportunity to express my heartfelt thanks to the staff of the Group for their dedication in the past year and to all shareholders for their unceasing support and care for the Company.

By Order of the Board

Chen Zhaoxiong

Chairman

Shenzhen, PRC, 24 April 2006