

## CHAIRMAN'S STATEMENT

During the six months ended 30 June 2006 (the "Period"), interim losses after tax attributable to shareholders of the Company amounted to RMB293,137,000, dropped by 194% as compared with profit of the corresponding period of last year. This is mainly due to the one-off loss of RMB426,636,000 incurred as a result of the share reform of Great Wall Kaifa and CGC undergone in May 2006 (For details, please refer to the circular dated 27 February 2006 issued by the Company, the announcement of the Company dated 15 August 2006 and the Management Discussion and Analysis included in this interim report). Moreover, profit of the same period of last year included a one-off gain of RMB334,674,000 (before minority interests) generated from the disposal of International Information Products (Shenzhen) Co., Ltd ("IIPC"). Save for the impact of the above events on the profit and losses of the Group, the Group's major business is carried on with steady and healthy growth and retained its positive pace of development. During the Period, the profit from operations before tax of the Group reached RMB297,029,000 (apart from the loss on share reforms of subsidiaries of RMB426,636,000 as mentioned in Note 16 to the condensed consolidated financial statements of this interim report), representing a 31% growth compared with the corresponding period last year, and the sales revenue amounted to RMB8,662,392,000 which increased by 20% as compared with those of the corresponding period of last year.

### Business Review for the first half of 2006

#### *Capturing market opportunities to expand the scale of production*

In face of the fierce competition of the international electronic components market, the Group has steadfastly employed scientific development perspective to timely capitalize on the opportunities in the market. During the Period, major business of the Group maintained sustained growth, among which the scale of production of the core electronic components business (such as hard disk drives ("HDDs") magnetic heads, HDD substrates and HDDs) was constantly expanding, consequently achieving a sales revenue of approximately RMB7,500 million and a profit of approximately RMB237 million, representing an increase by 21% and 15% respectively as compared with the corresponding period last year.

The construction of the phase I plant in Suzhou production base of Great Wall Kaifa, a subsidiary of the Group, was finally completed during the Period. As the plant was put into production, the capability of the Group on developing, designing and manufacturing large volume HDD magnetic heads and cards and related electronic component products will be further enhanced. Also, the completion and the commencement of production of the production base enabled Great Wall Kaifa to be well positioned in coping with future competition in the market.

The completion of the construction of the new manufacturing plant phase II of Shenzhen Kaifa Magnetic Recording Co. Ltd ("Kaifa Magnetic") located in Shi Yan, Shenzhen was finally completed and was put into use during the Period, which has lessened the shortage of production premises. Kaifa Magnetic was therefore better equipped to cope with the growing demand in the market with increased efficiency and timeliness, expanding its productivity and further enhancing its profitability.

Shenzhen ExcelStor Technology Limited ("ExcelStor Technology"), a subsidiary of the Group, currently involved in the proposed construction of the manufacturing plant of HDDs in the major industrial zone of Longgang district in Shenzhen, which comprised the strategic policy of the Group to enlarge its scale and enhance its productivity.

During the Period, the sales quantities of the Group's HDD magnetic heads amounted to approximately 17,020,000 pieces, representing an increase of 12% as compared with the corresponding period last year; the sales quantities of the Group's HDD substrates amounted to 52,540,000 pieces, representing an increase of 54% as compared with the corresponding period last year; the sales quantities of the Group's HDDs amounted to 7,701,000 sets, representing an increase of 40% as compared with the corresponding period last year; the sales quantities of the Group's power supplies amounted to approximately 2,518,000 sets, representing an increase of approximately 34% as compared with the corresponding period last year; while the sales quantities of the Group's monitors amounted to 1,087,000 sets, representing an increase of approximately 59% as compared with the corresponding period last year.

#### *Be market-oriented to forge core competitiveness*

During the Period, the Group adopted a market-oriented approach to elevate its core competitiveness in the international and domestic markets through persistent enhancement and refinement of the core technology for its products.

The high precision processing technology and the high efficiency automated production line attaining international level and researched and developed by Great Wall Kaifa, a subsidiary of the Group, have significantly enhanced the efficiency of production and percentage of qualified product and will soon demonstrate its significance in extending the Group's product chain.

Kaifa Magnetic, a subsidiary of the Group, has improved its technology on key production craftsmanship for substrate products, rationalized the allocation of its production resources, and reduced the production cost of its products, eventually maintaining its production of substrate products in the world's leading position.

ExcelStor Technology, a subsidiary of the Group, has successfully realized mass production of its high-volume 160GD single-piece HDDs during the Period.

CGC, a subsidiary of the Group, has launched the high price/performance ratio Great Wall JinXiang V – V220S Core Duo Computer (長城嘉翔V – V220S雙核電腦), together with the second generation Super Core Duo Gaming Notebook Computer T60 after the success of PRC's first gaming notebook computer T50.

GWBNS, an associate of the Group, has continued to leverage on its competitive edge of "terminal services" and further expanded the geographic coverage of its "broadband manager" services, under which users of all kind were provided with all-rounded maintenance solutions for networking terminal hardware and software.

#### *Integrating resources and creating new models*

During the Period, the Group intensified its efforts on resource integration of technology, marketing, brand-naming and production, resulting in a series of electronic component products with core products like HDD magnetic heads, HDD substrates and HDDs, and also a whole series of integrating products with core products like personal computers and network smart electronic meters.

The Group has implemented a creative business model involving the combination of OEM, ODM and OBM, realizing the profound market value of its self-owned brands and enhancing its profitability. Regarding monitors and personal computer power source business, the Group has established a new model which combined the sales channel of brandname "Greatwall" and the production of OEM, and has attained satisfactory results.

#### **Outlook for the second half of 2006**

For the second half of 2006, the Group will continue to carry on its scientific development, implement its development strategy of enhancing its core competitiveness, retain steady growth of the major business, increase input on scientific research, insist on scientific innovation, continue to integrate existing resources, increase the utilization rate of the newly established production bases, quicken the pace of research on new profit modes, and continue to capture and seek for new market opportunities and chances of development.

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

By Order of the Board,  
**Chen Zhaoxiong**  
Chairman

Shenzhen, China  
24 August 2006