

PROSPECTS IN THE SECOND HALF OF 2003

During the Period, the Group maintained continual growth, especially within the Company's manufacturing industry. For example, Kaifa, Kaifa Magnetics and ExcelStor Technology achieved considerable improvement in its operation results as compared to the corresponding period last year. For the second half of 2003, the Company aims to accelerate the progress of resources integration, perfect industrial layout and form a complete industry chain, continue with its development in its manufacturing industry, focus on the HDD business, develop its substrate and HDD magnetic heads business, actively develop information services, establish a core business lead by software services and system integration, broadband network and telecommunication services, fully demonstrate the advantage in utilising the overall resources of the Group so as to drive and promote the development of PCs, PC peripheral products, network terminal and other electronic products, establish, adjust and perfect its technological center, strive for technological development and to hasten industry upgrade.

The Group and its associated companies will endeavour to improve work performance, refine its internal management, optimize product structure, accelerate business development and so forth.

Kaifa will strive to develop its market in order to generate increased sales revenue, nurture new centers of profitability, strengthen management, further reduce costs and integrate internal resources efficiently.

Kaifa Magnetics will endeavour to increase its market share upon steady growth of capacity, focus on research and development of new products and improvement of production skills, strengthen cost control, reduce consumption and enhance product qualification rates in order to generate greater economic returns.

Whilst carrying out distribution channel reforms, CGC will implement large-scale investment in new products and businesses to promote its own brand. Further, CGC will actively market its table-top business and further enhance its management standards and supervision system, reduce costs and improve operation efficiency.

ExcelStor Technology will continue focusing on global cooperation with Hitachi Global Storage Technologies Company in the fields of storage technology and relevant OEM production. On the basis of developing the OEM market, ExcelStor Technology strives to build up a market for its own brand and will continue to expand its domestic and international markets.

GWBNs will make full use of business opportunities obtained in the first half of 2003 when the Chinese telecommunication market meliorated, endeavour to expand market share, strengthen network management and customer service, reinforce management control, and reduce expenses so as to ensure considerable increase in revenue for the year ended 2003.

GWCSs will further improve its internal management mechanism and organization structure so as to cultivate strong synthetic capability in software services and system integration. In line with this particular industry, for the second half of 2003, GWCSs intends to fully demonstrate its leading position in the current market and projects in order to improve operation results.

Investment

The acquisition of DigiPro

On 15 April 2003, the Company and DigiPro entered into an equity acquisition arrangement, which is summarized below:

DigiPro has a registered capital of US\$7,000,000. Before entering into the equity acquisition arrangement, the Company held a 35% shareholding in DigiPro, Dongfang Communications Holdings Company Limited ("Dongfang Communications") held a 30% shareholding, American Texas Instrument China Limited ("Texas Instrument") held a 30% shareholding and China Putian Information Industry Group Company ("Putian Information") held a 5% shareholding. On 15 April 2003, after approval by all the shareholders of DigiPro, the Company entered into an acquisition agreement with Dongfang Communications and Putian Information to acquire their 30% and 5% respective shareholdings in DigiPro at a consideration of RMB15,385,714 and RMB2,564,286 respectively. Following the said acquisition, the Company and Texas Instrument will hold a 70% and 30% shareholding in DigiPro respectively. The Company has paid a total consideration of RMB17,950,000 to acquire the shares in DigiPro from Dongfang Communications and Putian Information. The said acquisition arrangement has been disclosed in the Company's 2002 annual report. As at the date of this announcement, the acquisition is still in process of completion.

EMPLOYEES

As at 30 June 2003, the Group had approximately 10,000 employees. The Group's employees were remunerated, compensated and granted incentive policies according to their positions in and contributions to the relevant companies within the Group.