



### BUSINESS REVIEW AND OUTLOOK

#### Business Review

The global economy has seen gradual improvement during 2003

consequently improving the global information technology industry for reason of increase in demand. China's competitiveness for its low labour costs and attractive investment environment has enabled China to become a manufacturing center of the global information technology industry.

On the other hand, the information technology industry has been undergoing restructuring and integration. The industry has been experiencing continuous pressure on the price of information technology equipment and increasing market competition. The Group has made the correct judgment on the macroeconomic situation and the development in information technology industry and has achieved tremendous progress by strengthening its internal management, proactively adjusting business operations and allocating more resources to develop its market. In 2003, the Group has achieved sales turnover of RMB11,109,837,000 and net profit of RMB177,657,000 which translated to an increase of 27% and 223% respectively compared to 2002.

#### Hard Disk Drive ("HDD") and Related Products

Shenzhen Kaifa Technology Company Limited ("Kaifa Tech") is a 55.96% owned subsidiary. Kaifa Tech recorded a realized sales turnover of RMB7,859,763,920, being a 27.2% increase as compared to 2002. The amount of sales of HDD heads increased significantly by 26% as compared to 2002 which translated to a 13% global market share.

While Kaifa Tech's business experienced rapid growth, it managed to reduce its financing costs by 94% by strengthening its financial management. In addition, Kaifa Tech continued its implementation of the 6-Sigma



allowing it to improve its productivity by 30% through introducing and adopting other advanced management modes and methods such as IE technology from Japan.

Shenzhen Kaifa Magnetic Recording Company Limited ("Kaifa Mag"), a 78.42% owned subsidiary, recorded a sales turnover of RMB486,009,694 and net profit of RMB90,911,207, being a 75.5% and 177% increase over 2002. The amount of shipments of substrates was also recorded as an increase of 69% as compared with 2002.

Kaifa Mag has achieved remarkable results and steady improvements in the past years through consistent dedication, implementation of stringent cost controls, adoption of new technology and developing new markets. Kaifa Mag has become one of the key suppliers to the international HDD industry.

Shenzhen ExcelStor Technology Company Limited ("Shenzhen ExcelStor") is a 61.65% owned subsidiary and recorded a realized sales turnover of RMB2,555,768,778 representing a 85.9% increase as compared to 2002 and net profit of RMB12,614,317.

On 18 August 2003, the Company signed a technology transfer agreement (the "Technology Transfer Agreement") with Shenzhen ExcelStor and Hitachi Global Storage Technology Co., Ltd.. Pursuant to the Technology Transfer Agreement, Shenzhen ExcelStor shall acquire internationally advanced HDD technology to manufacture Hitachi brand HDD products and ExcelStor brand HDD products. The Technology Transfer Agreement not only provided Shenzhen ExcelStor with assurance for its long term development but also allowed faster research and development work in respect of its own HDD products based on its own proprietary intellectual property rights and patents.

### Network Terminal and Micro-Electronic Products

Kaifa Tech is one of the world's largest producers of remote-controlled electronic meters. In 2003, Kaifa Tech shipped 2,447,000 units of such remote-controlled electronic meters to Italy and realized a sales turnover of RMB190,195,643.

Kaifa Tech established Kaifa Microelectronics Company Limited in November 2003 with a main business objective to process EMS memory for Kingston Technology Company Inc. at a monthly output of 600,000 units.

### PC and PC Peripheral Products

As at the financial year ended 31 December 2003, China Great Wall Computer (Shenzhen) Company Limited ("CGC"), a 60.47% owned subsidiary, realized a sales turnover of RMB1,514,391,708 and a net profit



of RMB107,237,317 representing a decrease of 1.6% and an increase of 67.6% respectively as compared to the corresponding period last year. The sales volume of PCs, power supply, monitors and printers all increased to different extents. In particular, the sales revenue of CGC servers increased by 158% as compared with 2002.

In 2003, CGC entered into a cooperation arrangement with Digital China Co., Ltd in relation to its PC business. CGC had initiated a brand-new distribution network and completed the reform of its distribution infrastructure to facilitate the integration of its regional marketing resources and to reduce its sales cost significantly. CGC recorded improvement of its financial management by implementing total cost control management and approval processes, each of which provided strong support to the improvement of its profitability. The year end inventory level reduced by 47.3% as compared with the beginning of the year and the inventory turnover rate increased by 60% as compared with 2002 therefore signifies that CGC had significantly improved its management of inventory and turnover.

### Broadband Network

In 2003, Great Wall Broadband Network Service Company Limited ("GWBNS"), a 43.73% owned associated company of the Group, realised sales revenue of RMB238,318,177 which represents an increase of 76% as compared to 2002. GWBNS had gained 578,400 new broadband subscribers with accumulated total number of users reaching 2,339,700 which representing a 33% growth over corresponding preceding period.

In addition to strengthening its internal management and improving its organizational structure, GWBNS adjusted its shareholding and organizational structure. It improved its operating efficiency and quality of its broadband network through centralized network maintenance and resources. In terms of market share, GWBNS ranked third in China's domestic LAN market.

### Service Software and System Solution

In 2003, Great Wall Computer Software and Systems Incorporation Limited ("GWCSS"), a 82.54% owned subsidiary, realized a sales turnover of RMB242,165,274 and a net profit of RMB5,701,667, representing an increase of 5.5% and 212% respectively as compared to the same period last year.

With the promotion of the development of information technology by the Chinese government, GWCSS developed its own strength and actively participated in the construction of major projects initiated by the central government, various ministries and commissions, provincial and municipal governments. GWCSS strives to standardize, modularize and commercialize its years of accumulated experience, and endeavors to gradually evolve from being a project contractor to a product supplier and information technology industry consultant.

### Management and Technology Development

In 2003, the Group attached great importance to financial management and achieved distinctive results resulting from the improvement of its overall internal management. The turnover of the Group's capital increased by 28%, while bank and other borrowings decreased by 48.8%, and financial expenses were reduced by RMB45,000,000 as compared with the same period last year

In respect of technology development, Beijing DigiPro Company limited ("Beijing DigiPro"), a joint venture company of which 70% is owned by the Company and 30% is owned by Texas Instruments China Inc. ("TI"), took full advantage of TI's solid strength in CMOS chips and expanded its research and development in digital terminal products for internet applications (英特網數位終端產品). Meanwhile, the Company had continuously reinforced technology upgrade and maintained its main products and technology on par with the international standards without any further new capital investment.

### Outlook for 2004

The gradual recovery of the global information technology industry has been one of the key forces driving the world economy. However, it has not recovered to the peak time. The intense competition in the information technology industry will lead to increased pressure on prices. With this in mind, the Company will take appropriate measures for our various business operations to face the challenges and seize the opportunities.

In relation to the HDD business, the Group will consolidate its position as one of the key manufacturing bases and expand its market share in global market through further cost cutting, quality improvement to enhance cash flow and technology upgrading. While continuing to expand its OEM market share, the Company will gradually transform its business from OEM to ODM.

In respect of PC products under the Group's own brand, CGC will strengthen its cooperation with Digital China Co., Ltd in order to further increase its sales of personal computers. In addition to solving the current problems continuously, CGC will also develop its notebook and server businesses in order to turn them into new profit growth centres. While closely observing market trends and changes resulting from the rising of the digital TV and popularization of broadband application, CGC will strive to secure its position in the new round of market competition by adopting active and effective measures in advance, investing in research and development and mergers and acquisitions.

In respect of software and system integration, GWCSS will continue to refine its business model and build up the strength of its management platform. It will strengthen its budgetary management based on each individual project and perfect its assessment and evaluating system. GWCSS will focus on the development of products and technology services with proprietary intellectual rights and with mature profit-generating models. It will fully utilize the opportunity that the Chinese government strives to promote the application of information technology. It will also fully utilize its accumulated experience and extend its competitive advantage and market share in the field of software and system integration.

In relation to broadband network connection, GWBNS will continue to focus on its operational service, further enhance cooperation with business partners, improve network quality, provide more value-added services in order to increase the number of internet users and connection rate. At the same time, GWBNS will also actively develop its chain of internet cafe businesses and explore new profit-generating models so as to reduce the gap between itself and its competitors.

In terms of technology development, Beijing DigiPro will strive to introduce more advanced technologies from TI and, at the same time, it will ensure that its research and development in technologies will be more in line

with the Group's businesses thereby allowing Beijing DigiPro to become the research and development centre within the Group.

### Investment, acquisition and transfer

The acquisition of DigiPro

On 15 April 2003, the Company entered into an equity acquisition arrangement with DigiPro. Completion of the share transfer took place in September 2003 details of which were disclosed in the 2003 Interim Report. Following the acquisition, the Company owns 70% and TI owns 30% of Beijing DigiPro respectively.

### Transfer of shares of Kaifa Mag

Pursuant to the shares transfer agreements entered into between the Company and Able Success Limited and Kaifa Tech with each of Able Success Limited, Pearl Wealth Limited and Beijing Pacific Lu Lu Tong Internet Technology Company Limited, the Company has transferred 8% of its shareholding interests in Kaifa Mag to Able Success Limited and Kaifa Tech has transferred 6.8%, 0.16% and 0.04% of its shareholding interests in Kaifa Mag to Able Success Limited, Pearl Wealth Limited and Beijing Pacific Lu Lu Tong Internet Technology Company Limited respectively. The above transfers have already been approved by the relevant local authority on 24 December 2003.

## 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 support and concern for the Company.

By Order of the Board

**Wang Zhi**  
*Chairman*

23 April 2004