1. GENERAL

The Company was established in the People's Republic of China (the "PRC") as a joint stock company on 20 March 1998. Pursuant to a resolution passed at the general meeting held on 30 December 1999 to change the Company into a foreign investment joint stock limited company, the Company obtained approval from the Ministry of Foreign Trade and Economic Corporation of the PRC on 4 September 2000. On 22 December 2000, the Company obtained a business registration certificate from the State Administration of Industry and Commerce of the PRC to carry on business as a sino-foreign joint venture joint stock limited company.

Its ultimate holding company is China Great Wall Computer Group Company, a state-owned enterprise established in the PRC.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") since 5 August 1999.

Pursuant to a resolution passed by the Board of Directors on 2 February 2001, the Company adopted the Chinese name of 長城科技股份有限公司.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the development, manufacture and sale of computer and related products including hardware and software products. The Group also hold properties for investment purpose.

The Company also acts as an investment holding company.

The principal activities of its principal subsidiaries are set out in note 18.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
SSAP 35	Accounting for government grants and disclosure of government assistance

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in financial statements and corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of accumulated profits of the Group as at 1 January 2002 has been decreased by RMB4,686,000, representing the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The change has resulted in an increase in the profit before minority interests of RMB4,298,000 for the year ended 31 December 2003 (2002: RMB2,444,000). The net effect attributable to the Group is an increase in the profit of RMB2,405,000 for the year ended 31 December 2003 (2002: RMB1,368,000).

Accounting for government grants and disclosure of government assistance

The adoption of SSAP 35 has had no material effects on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"). The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances amongst group enterprises are eliminated on consolidation.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and accumulated impairment losses.

Other than the staff quarters, land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Staff quarters are stated at cost less accumulated depreciation and amortisation and accumulated impairment loss.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Land and buildings	Over the terms of the respective leases
Land use rights	Over the terms of the respective land use rights
Plant, machinery and equipment	2 to 11 years
Motor vehicles	5 to 6 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Construction in progress

Construction in progress represents buildings, machinery and projects under construction or installation and is stated at cost less accumulated impairment losses. Cost comprises direct and other related costs, including interest expenses, attributable to the construction activities. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into productive use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding principal portions of the commitments are shown as obligations to the Group. The finance charges, which represent the difference between the total commitments and the outstanding principal amount at the inception of the finance leases are charged to the consolidated income statement using actuarial method over the period of the respective leases.

All other leases are classified as operating leases and the rentals payable are charged to the consolidated income statement on a straight line basis over the respective leases.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On subsequent disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the consolidated income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2002 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2002 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

On disposal of a subsidiary or an associate the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2002 continues to be held in reserves and will be credited to the consolidated income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1 January 2002 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to the consolidated income statement in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patents

Patents are stated at cost less impairment loss. They are amortised over their estimated useful lives.

Technology acquired

Technology acquired is stated at cost less impairment loss. It is amortised over its estimated useful lives.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment losses.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deduced in reporting the related expenses.

Foreign currencies

The Company and its subsidiaries in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the rates quoted by the People's Bank of China ("PBOC") ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are re-translated into RMB at the applicable PBOC rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into RMB at exchange rates prevailing on the balance sheet date. Income and expense items are translated into RMB at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to the customers.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Technical services income is recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Retirement benefit schemes

The retirement benefit costs charged to the consolidated income statement represent the Group's contributions payable in respect of the current year to the retirement funds scheme managed by local social security bureau in accordance with the PRC government regulations and the defined contribution scheme of a subsidiary in Hong Kong.

Research and development cost

Research costs are recognised as expenses in the period in which they are incurred.

Expenditure on development is charged to the income statement in the year in which it is incurred except where a clearly-defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operation, which is on average five years.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

4. TURNOVER

Turnover represents the invoiced value of goods sold by the Group to outside customers and is stated net of trade discounts, returns and sales taxes, technical services income and property rental income received and receivable during the year as follows:

	2003	2002
	RMB'000	RMB'000
Sales of goods	**11,074,665**	8,733,474
Technical services income	**27,154**	9,106
Property rental income	**8,018**	–
	11,109,837	8,742,580

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three main operating segments – manufacture and sales of personal computer ("PC") and PC peripheral products; hard disk drives ("HDD") and related products; and property investment for rental income. These divisions are the bases on which the Group reports its primary segment information.

In prior years, the Group was also engaged in the provision of broadband network services, which was discontinued in the year ended 31 December 2002.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

	For the year ended 31 December 2003					
	Continuing Operations					
	PC and PC peripheral products	HDD and related products	Property leasing	Others	Eliminations*	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE						
External sales	1,984,534	9,117,285	8,018	–	–	11,109,837
Inter-segment sales	331	59,931	–	–	(60,262)	–
Total revenue	1,984,865	9,177,216	8,018	–	(60,262)	11,109,837
SEGMENT RESULTS	(195,285)	308,909	7,380	(19,677)	(11,766)	89,561
Unallocated other operating income						131,783
Profit from operations						221,344
Share of results of associates	348,371	(32,788)	–	(68,190)	–	247,393
Gain on capital contribution from a shareholder of an associate	7,500	7,500	–	35,000	–	50,000
Finance cost	–	–	–	–	–	(68,227)
Profit before income tax expense						450,510
Income tax expense	–	–	–	–	–	(129,070)
Profit after income tax expense						321,440

* Inter-segment sales are charged at prevailing market rates or, where no market rates are available, at cost plus a percentage profit mark-up.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	As at 31 December 2003				
	Continuing Operations				
	PC and PC peripheral products	HDD and related products	Property leasing	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Segment assets	1,514,156	4,326,730	272,808	85,477	6,199,171
Interests in associates	486,346	104,414	–	52,708	643,468
Investments in securities	–	48,347	–	–	48,347
Bank balances and cash	286,278	889,384	–	784,562	1,960,224
Consolidated total assets					8,851,210
LIABILITIES					
Segment liabilities (excluding minority interests)	685,161	1,915,868	–	22,216	2,623,245
Unallocated liabilities					1,341,120
					3,964,365
					4,886,845

	For the year ended 31 December 2003				
	Continuing Operations				
	PC and PC peripheral products	HDD and related products	Property leasing	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION					
Allowances for bad and doubtful debts	64,561	13,424	–	–	77,985
Capital additions	33,578	137,165	–	26,584	197,327
Deficit on revaluation of investment properties	–	–	647	–	647
Depreciation and amortisation	36,218	298,247	–	1,731	336,196
Impairment losses recognised in respect of property, plant and equipment	519	78,255	–	–	78,774
Loss on disposal and write off of property, plant and equipment	19,795	15,341	–	27	35,163

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the year ended 31 December 2002

	Continuing Operations				Discontinued Operations	
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Eliminations* RMB'000	Provision of broadband network services RMB'000	Consolidated RMB'000 (Restated)
SEGMENT REVENUE						
External sales	2,008,321	6,697,698	–	–	36,561	8,742,580
Inter-segment sales	33,474	858,954	–	(892,428)	–	–
Total revenue	2,041,795	7,556,652	–	(892,428)	36,561	8,742,580
SEGMENT RESULTS	(283,673)	262,071	–	–	(22,811)	(44,413)
Unallocated other operating income						19,610
Loss from operations						(24,803)
Share of results of associates	290,144	2,140	(97,865)	–	–	194,419
Finance costs	–	–	–	–	–	(113,251)
Gain on deemed disposal of subsidiaries	–	8,742	–	–	96,746	105,488
Gain on disposal of a partial interest in an associate	36,646	–	–	–	–	36,646
Gain on deemed disposal of an associate	–	3,787	–	–	–	3,787
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	–	(72,003)	–	–	–	(72,003)
Profit before income tax expense						130,283
Income tax expense	–	–	–	–	–	(58,699)
Profit after income tax expense						71,584

* Inter-segment sales are charged at prevailing market rates or, where no market rates are available, at cost plus a percentage profit mark-up.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

As at 31 December 2002

	Continuing operations			Discontinued operations	
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Provision of broadband network services RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	1,881,769	4,852,030	–	–	6,733,799
Interests in associates	407,024	35,192	224,495	–	666,711
Investments in securities	–	48,347	–	–	48,347
Bank balances and cash	380,495	1,951,775	–	–	2,332,270
Consolidated total assets					9,781,127
LIABILITIES					
Segment liabilities (excluding minority interests)	1,027,236	1,608,365	9,050	–	2,644,651
Unallocated liabilities	–	–	–	–	2,506,482
					5,151,133
					4,629,994

For the year ended 31 December 2002

	Continuing operations			Discontinued operations	
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Others RMB'000	Provision of broadband network services RMB'000	Consolidated RMB'000
OTHER INFORMATION					
Allowances for bad and doubtful debts	46,584	61,658	–	–	108,242
Capital additions	97,730	654,136	60,942	2,270	815,078
Depreciation and amortisation	20,317	223,533	497	13,655	258,002
Impairment losses recognised in respect of property, plant and equipment	4,195	15,075	–	–	19,270
Impairment loss recognised in respect of intangible assets	–	4,510	–	–	4,510
Loss on disposal and write off of property, plant and equipment	241	55	–	–	296

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's manufacturing and sale operations and property investment are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2003	2002
	RMB'000	RMB'000
The PRC (including Hong Kong)	**1,817,499**	3,529,373
Asia Pacific (excluding the PRC)	**8,670,409**	4,923,997
North America	**388,379**	288,606
Others	**233,550**	604
	11,109,837	8,742,580

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and construction in progress, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (including Hong Kong)	**8,846,946**	9,771,331	**197,327**	815,044
Others	**4,264**	9,796	**–**	34
	8,851,210	9,781,127	**197,327**	815,078

6. OTHER OPERATING INCOME

	2003 RMB'000	2002 RMB'000
Included in other operating income are as follows:		
Interest income	**44,841**	34,049
Royalty income	**44,345**	–
Rental income, net of outgoings of RMB23,839,000 (2002: RMB23,526,970)	**27,105**	21,385
Refund of value added tax	**1,334**	14,331
Dividend income from other investments	**1,144**	19,610

7. PROFIT (LOSS) FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit (loss) from operations has been arrived at after charging:		
Allowances for bad and doubtful debts (including in selling and distribution expenses)	**77,985**	108,242
Amortisation of goodwill (including in administrative expenses)	**2,334**	442
Amortisation of intangible assets (including in administrative expenses)	**36,418**	2,367
Auditors' remuneration	**4,136**	4,667
Deficit on revaluation of investment property	**647**	–
Depreciation and amortisation of property, plant and equipment	**297,444**	255,193
Impairment losses recognised in respective of intangible assets (including in administrative expenses)	**–**	4,510
Impairment losses recognised in respect of property, plant and equipment *(Note)*	**78,774**	19,270
Loss on disposal and write off of property, plant and equipment	**35,163**	296
Operating lease rentals in respect of land and buildings	**26,215**	21,277
Research and development expenses	**10,362**	52,473
Staff costs (including retirement benefit costs *(Note 8)* and directors' remuneration) *(Note 10)*	**366,891**	314,673

Note: The directors of the Group have reviewed the carrying amounts of the tangible and intangible assets of the Group as at 31 December 2003 and have identified that certain idle property, plant and equipment of a subsidiary amounting to RMB78,774,000 (2002: impairment losses of intangible assets and property, plant and equipment amounting to HK$23,780,000) had been fully impaired with regard to the current market situation of such businesses in the PRC. Accordingly, an impairment loss of RMB78,774,000 (2002: RMB23,780,000) has recognised in the financial statements during the year.

8. RETIREMENT BENEFIT COSTS

The retirement benefit costs calculated on the basis of 5% to 13% of employee's salaries charged to the consolidated income statement represent contributions payable by the Group to the retirement scheme amounting to approximately RMB15,291,000 (2002: RMB17,013,000). There were no forfeited contributions for both years.

There were no forfeited contributions available as at 31 December 2003 and 2002 to reduce future contributions.

9. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest on:		
Bank and other borrowings wholly repayable within five years	**67,355**	119,178
Finance leases	**872**	969
Amount due to ultimate holding company	**–**	449
Total borrowing costs	**68,227**	120,596
Less: Amount capitalised in construction in progress	**–**	(7,345)
	68,227	113,251

The amount capitalised in the construction in progress during the year ended 31 December 2002 arose on the Group's borrowings and was calculated by applying capitalisation rates ranging from 4.05% to 5.9% to expenditure on qualifying assets.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2003 RMB'000	2002 RMB'000
Fees	**1,000**	800
Other emoluments:		
Salaries and other benefits	**4,089**	4,297
Performance related incentive payments	**1,932**	1,207
Contributions to retirement benefit schemes	**217**	230
	7,238	6,534

The amounts disclosed above include directors' fees and other emoluments of RMB300,000 (2002: RMB300,000) paid to independent non-executive directors for the year ended 31 December 2003.

The emoluments of the directors were within the following bands:

	Number of directors 2003	2002
Nil to RMB1,000,000	**9**	7
RMB1,000,001 to RMB2,000,000	**1**	–
RMB4,000,001 to RMB5,000,000	**1**	1
	11	8

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Supervisors' remuneration

	2003 RMB'000	2002 RMB'000
Fees	**50**	100
Other emoluments:		
Salaries and other benefits	–	170
Performance related incentive payments	–	10
Contributions to retirement benefit schemes	–	10
	50	290

The emoluments of the supervisors were within the following band:

	Number of supervisors 2003	2002
Nil to RMB1,000,000	**2**	2

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(c) Employees' emoluments

The five highest paid individuals of the Group for the year include one director (2002: one director) of the Company and details of whose emoluments are disclosed in note 10(a) above.

The emoluments of the remaining individuals were as follows:

	2003 **RMB'000**	2002 RMB'000
Salaries and other benefits	**6,237**	7,869
Performance related incentive payments	**5,757**	2,079
Contributions to retirement benefits schemes	**323**	218
	12,317	10,166

The emoluments of these individuals were within the following bands:

	Number of employees	
	2003	2002
RMB1,000,000 to RMB2,000,000	**–**	1
RMB2,000,001 to RMB3,000,000	**2**	2
RMB3,000,001 to RMB4,000,000	**1**	1
RMB4,000,001 to RMB5,000,000	**1**	–
	4	4

11. INCOME TAX EXPENSE

	2003 RMB'000	2002 RMB'000 (Restated)
The income tax expense comprises:		
Current year		
PRC income tax	**44,412**	25,031
Hong Kong Profits Tax	**18,966**	9,557
	63,378	34,588
Deferred taxation *(Note 29)*	**(4,298)**	(2,444)
Taxation attributable to the Company and its subsidiaries	**59,080**	32,144
Share of taxation of associates	**69,990**	26,555
	129,070	58,699

PRC income tax is calculated at the rate of 15% (2002: 15%) of the estimated assessable profits applicable to each individual company within the Group in the PRC.

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the Period. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current tax balance at 31 December 2003.

Details of deferred taxation are set out in note 29.

11. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit before income tax expense per the consolidated income statement as follows:

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before income tax expense	450,510		130,283	
Tax at the domestic income tax rate	67,577	15.0	19,542	15.0
Tax effect of share of loss of associates	4,959	1.1	4,468	3.4
Tax effect of expenses not deductible for tax purpose	42,918	9.5	37,401	28.7
Tax effect of income not taxable for tax purpose	(1,263)	(0.3)	(2,475)	(1.9)
Tax effect of tax losses not recognised	31,965	7.1	29,482	22.6
Utilisation of tax losses previously not recognised	(5,919)	(1.3)	(7,392)	(5.7)
Effect of tax exemptions granted to the PRC subsidiaries and associates	(11,301)	(2.6)	(27,224)	(20.9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	134	0.1	4,897	3.8
Tax effect and effective tax rate for the year	129,070	28.6	58,699	45.0

12. DIVIDEND

The directors do not recommend the payment of any dividend for both years.

13. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately RMB177,657,000 (2002: RMB55,022,000) and on 1,197,742,000 (2002: 1,197,742,000) shares in issue during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings						
	Situated in Hong Kong under medium-term lease	Situated in the PRC under medium-term land use rights	Staff quarters situated in the PRC under medium-term land use rights	Plant, machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP							
COST OR VALUATION							
At 1 January 2003	10,275	975,986	145,614	1,788,229	21,995	388,955	3,331,054
Additions	–	8,421	8,615	114,969	3,358	61,964	197,327
Acquired on acquisition of a subsidiary	–	–	–	1,396	355	–	1,751
Disposals and write-off	(3,973)	–	(1,339)	(214,655)	(6,078)	(1,180)	(227,225)
Transfer	–	108,859	–	52,427	–	(161,286)	–
Transfer to investment property *(Note 15)*	–	–	–	–	–	(273,455)	(273,455)
At 31 December 2003	6,302	1,093,266	152,890	1,742,366	19,630	14,998	3,029,452
Comprising:							
At cost	–	18,034	152,890	1,742,366	19,630	14,998	1,947,918
At valuation – 1999	6,302	691,175	–	–	–	–	697,477
At directors' valuation – 2001	–	275,198	–	–	–	–	275,198
At directors' valuation – 2003	–	108,859	–	–	–	–	108,859
	6,302	1,093,266	152,890	1,742,366	19,630	14,998	3,029,452
DEPRECIATION AND AMORTISATION/ IMPAIRMENT							
At 1 January 2003	3,889	85,993	12,822	746,962	14,045	1,278	864,989
Provided for the year	1,001	28,928	3,207	262,011	2,297	–	297,444
Eliminated on disposals and write-off	(1,887)	–	(155)	(159,149)	(3,878)	–	(165,069)
Transfer	–	–	–	1,278	–	(1,278)	–
Impairment loss for idle assets	–	–	–	78,774	–	–	78,774
At 31 December 2003	3,003	114,921	15,874	929,876	12,464	–	1,076,138
NET BOOK VALUES							
At 31 December 2003	3,299	978,345	137,016	812,490	7,166	14,998	1,953,314
At 31 December 2002	6,386	889,993	132,792	1,041,267	7,950	387,677	2,466,065

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Land and buildings in Hong Kong and certain land and buildings in the PRC were revalued on an open market value and/or depreciated replacement cost basis by Vigers Hong Kong Limited, a firm of independent professional valuers at 30 April 1999 with an aggregate amount of approximately RMB697,477,000. In the opinion of the directors, the fair value of the land and buildings at 31 December 2003 is not materially different from this valuation and the remaining land and buildings were at least their carrying values.

Certain land and buildings located in the PRC were acquired or completed in late 2001. Therefore the directors are of the opinion that their net book value of RMB246,227,000 are not materially different from the market value as at 31 December 2003. Certain land and buildings located in the PRC were completed in 2003 and the directors are in the opinion that their net book value of RMB107,058,000 not materially different from market value as at 31 December 2003. The remaining land and buildings located in the PRC completed in 2002 and 2003 were not different from the market value as at 31 December 2003 and the directors are in the opinion that this amount is not material and therefore no valuation has been performed.

If the land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation of approximately RMB982 million (2002: RMB896 million).

The Group's land and buildings situated in the PRC under medium-term land use rights carried at a cost of approximately RMB226 million (2002: RMB188 million) and accumulated depreciation and amortisation of approximately RMB25.5 million (2002: RMB20 million) were held for rental purpose under operating leases.

No interest was capitalised in the construction in progress of the Group at the balance sheet date (2002: RMB25,895,000).

The net book value of plant and machinery includes an amount of RMB10,610,000 (2002: RMB13,889,000) in respect of assets held under finance leases.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings situated in the PRC under medium-term land use rights	Plant, machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE COMPANY					
COST					
At 1 January 2003	–	4,865	1,578	312,358	318,801
Additions	–	15	–	26,567	26,582
Disposals	–	(32)	(202)	–	(234)
Transfer	52,029	1,015	–	(53,044)	–
Transfer to investment property *(Note 15)*	–	–	–	(180,480)	(180,480)
Transfer to a subsidiary	–	–	-	(97,539)	(97,539)
At 31 December 2003	52,029	5,863	1,376	7,862	67,130
DEPRECIATION AND AMORTISATION					
At 1 January 2003	–	620	872	–	1,492
Provided for the year	861	293	238	–	1,392
Eliminated on disposals	–	(27)	(173)	–	(200)
At 31 December 2003	861	886	937	–	2,684
NET BOOK VALUES					
At 31 December 2003	51,168	4,977	439	7,862	64,446
At 31 December 2002	312,358	4,245	706	312,358	317,309

No interest was capitalised in the construction in progress of the Company at the balance sheet date (2002: RMB17,883,000).

As at 31 December 2003, the Group and the Company are in the process of obtaining a building ownership certificate for certain land and buildings with net book value of RMB107,058,000 and RMB51,168,000, respectively (2002: Nil).

15. INVESTMENT PROPERTIES

	THE GROUP RMB'000	THE COMPANY RMB'000
At 1 January 2003	–	–
Transfer from property, plant and equipment *(Note 14)*	273,455	180,480
Deficit on revaluation *(Note 7)*	(647)	(427)
At 31 December 2003	272,808	180,053

The investment properties were valued at open market value at 31 December 2003 by BMI Appraisals Limited, a firm of independent professional valuers. This valuation gave rise to a deficit on revaluation of RMB647,000 (2002: Nil) and RMB427,000 (2002: Nil) of the Group and the Company, respectively, which has been charged to the consolidated income statement during the year ended 31 December 2003.

Certain of the Group's and the Company's investment properties are rented out under operating leases.

The investment properties are located in the PRC under a medium-term lease.

As at 31 December 2003, the Group and the Company are in the process of obtaining a building ownership certificate for the investment properties.

16. GOODWILL

	THE GROUP
	RMB'000
COST	
At 1 January 2003	6,063
Additions	13,560
At 31 December 2003	19,623
AMORTISATION	
At 1 January 2003	1,048
Provided for the year	2,334
At 31 December 2003	3,382
NET BOOK VALUES	
At 31 December 2003	16,241
At 31 December 2002	5,015

Goodwill is amortised over ten years.

17. INTANGIBLE ASSETS

	Patents RMB'000	Technology acquired RMB'000	Total RMB'000
COST			
At 1 January 2003 and at 31 December 2003	47,334	82,748	130,082
AMORTISATION			
At 1 January 2003	2,367	4,510	6,877
Amortised during the year	4,686	31,732	36,418
At 31 December 2003	7,053	36,242	43,295
NET BOOK VALUES			
At 31 December 2003	40,281	46,506	86,787
At 31 December 2002	44,967	78,238	123,205

Patents are amortised over ten years.

Technology acquired is amortised over three years.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	RMB'000	RMB'000
At cost		
Listed shares in the PRC	**1,218,670**	1,218,670
Unlisted investments in the PRC	**464,338**	426,106
	1,683,008	1,644,776
Market value of the listed shares in the PRC	**6,783,001**	6,705,481

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's principal subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Class of shares held	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company	Percentage of issued share capital/ registered capital held by subsidiaries	Equity interest attributable to the Group	Principal activities
北京長信嘉信息技術有限公司 Beijing Digipro Information Technology Company Limited	PRC **	Registered capital	RMB57,944,000	70%	–	70%	Research and development of software technology and trading of network related products
中國長城計算機深圳股份有限公司 China Great Wall Computer (Shenzhen) Co., Ltd. ("CGC") *	PRC **	Registered capital	RMB458,491,500	60.47%	–	60.47%	Manufacture and trading of PC and PC peripheral products
易拓長城科技有限公司 ExcelStor Great Wall Technology Limited	Cayman Islands	Ordinary shares	US$25,000,000	60%	–	60%	Investment holding
深圳易拓科技有限公司 ExcelStor Technology (Shenzhen) Limited	PRC #	Registered capital	US$26,600,000	61.65%	–	61.65%	Manufacturing of hard disk drives business
長城計算機軟件與系統有限公司 Great Wall Computer Software and System Incorporation Limited	PRC **	Registered capital	RMB100,000,000	58.35%	40%	82.54%	Development of computer software
開發科技（香港）有限公司 Kaifa Technology (H.K.) Limited	Hong Kong	Ordinary shares	US$500,000	–	100%	55.96%	Trading of hard disk drive heads and hard disk drive substrates

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Class of shares held	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company	Percentage of issued share capital/ registered capital held by subsidiaries	Equity interest attributable to the Group	Principal activities
深圳市開發磁記錄有限公司 Shenzhen Kaifa Magnetic Recording Co., Ltd. # ("Kaifa Magnetic")	PRC **	Registered capital	RMB224,033,000	51%	49%	78.42%	Production and development of hard disk drive substrates
深圳開發科技股份有限公司 Shenzhen Kaifa Technology Co., Ltd. * ("S. Kaifa")#	PRC **	Registered capital	RMB732,932,000	55.96%	–	55.96%	Production of hard drive heads
深圳開發光磁部件有限公司 Shenzhen Kaifa Optical & Magnetic Components Company Limited	PRC	Registered capital	RMB16,000,000	–	100%	55.96%	Manufacturing and trading of video recording heads, laser heads and related components
商網通電子商務有限公司 Sowant electronic-commerce Co., Ltd.	PRC **	Registered capital	RMB50,000,000	–	90%	57.73%	Provision of e-commerce business

* Subsidiary with its A shares listed on the Shenzhen Stock Exchange in the PRC

** Companies incorporated as privately owned limited companies in the PRC

\# Companies incorporated as equity jointly controlled entities

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost less impairment losses	–	–	**212,500**	232,781
Share of net assets	**643,468**	666,711	–	–
Goodwill on acquisition	**72,003**	72,003	–	–
	715,471	738,714	**212,500**	232,781
Less: Impairment loss of goodwill on acquisition	**(72,003)**	(72,003)	–	–
	643,468	666,711	**212,500**	232,781

Impairment loss on goodwill on acquisition had been made in the financial statements for the year ended 31 December 2002 as in the opinion of directors the goodwill acquired would not bring any future economic value to the Group.

Details of the Group's principal associates as at 31 December 2003 are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Percentage of registered capital held by the Company	Percentage of registered capital held by the subsidiaries	Equity interest attributable to the Group	Principal activities
北京金長科國際電子有限公司 Beijing GKI Electronics Co. Ltd. ("Beijing GKI")	Incorporated	PRC	–	30%	18.14%	Manufacture of computers
長城寬帶網絡服務有限公司 Great Wall Broadband Network Service Co., Ltd. ("GWB")	Incorporated	PRC	35%	15%	43.73%	Provision of broadband network services

19. INTERESTS IN ASSOCIATES (Continued)

Name of associate	Form of business structure	Place of establishment and operation	Percentage of registered capital held by the Company	Percentage of registered capital held by the subsidiaries	Equity interest attributable to the Group	Principal activities
華旭金卡股份有限公司 China Huaxu Golden Card Co., Ltd.	Incorporated	PRC	–	25.60%	14.33%	Manufacture of magnetic and optical card
國際商業機器租賃有限公司 IBM Leasing Company Limited	Incorporated	PRC	–	20%	12.09%	Direct finance leasing and provision of consulting services
長城國際信息產品（深圳）有限公司 International Information Products (Shenzhen) Co., Ltd. ("IIPC")	Incorporated	PRC	–	20%	12.09%	Manufacture of computers
金士頓科技電子（上海）有限公司 Kingston Technology Electronic (Shanghai) Co., Ltd. ("Kingston")	Incorporated	PRC	–	30%	18.14%	Manufacture and sales of various memory modules
昂納光通訊有限公司 O-Net Communications Limited ("O-net")	Incorporated	Cayman Islands	–	46.46%	25.99%	Investment holding
昂納光通訊香港有限公司 O-Net Communications (HK) Limited	Incorporated	Hong Kong	–	46.46%	25.99%	Trading of fiber optic components
昂納信息技術（深圳）有限公司 O-Net Communications (Shenzhen) Ltd.	Incorporated	PRC	–	46.46%	25.99%	Manufacture of fiber optic parts for optical communications networks

19. INTERESTS IN ASSOCIATES (Continued)

Name of associate	Form of business structure	Place of establishment and operation	Percentage of registered capital held by the Company	Percentage of registered capital held by the subsidiaries	Equity interest attributable to the Group	Principal activities
昂納光集成技術有限公司 O-Net Integrated Technology (SZ) Ltd.	Incorporated	PRC	–	46.46%	25.99%	Manufacture of integrated parts for optical communications networks
深圳長科國際電子有限公司 Shenzhen GKI Electronics Co., Ltd. ("Shenzhen GKI")	Incorporated	PRC	–	30%	18.14%	Manufacture of motherboards
深圳海量存儲設備有限公司 Shenzhen Hai Liang Storage Products Co. Ltd.	Incorporated	PRC	–	20%	11.64%	Manufacture and sales of magnetic head products
深圳昂納晶體有限公司 SZ O-Net Crystal Ltd.	Incorporated	PRC	–	46.46%	25.99%	Manufacture of crystal parts for optical communications networks

The above table lists the associates of the Group which, in the opinion of the directors, principally affects the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following details have been extracted from the financial statements of associates.

19. INTERESTS IN ASSOCIATES (Continued)

Operating results for the years ended 31 December 2003 and 2002:

	IIPC		GWB	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Turnover	**29,058,008**	15,508,514	**238,318**	135,183
Depreciation and amortisation	**24,103**	21,025	**96,448**	14,703
Profit (loss) before income tax expense	**1,862,964**	1,271,881	**(196,747)**	(153,265)
Income tax expense	**(349,949)**	(132,777)	**(3)**	(21)
Profit (loss) after income tax expense	**1,513,015**	1,139,106	**(196,750)**	(153,286)
Profit (loss) attributable to the Group	**182,924**	153,607	**(86,039)**	(53,777)

Financial positions as at 31 December 2003 and 2002:

	IIPC		GWB	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total non-current assets	**180,910**	111,247	**1,469,085**	1,445,244
Total current assets	**9,487,976**	5,561,327	**239,397**	266,595
Total liabilities	**(8,015,431)**	(4,417,033)	**(1,316,262)**	(1,279,794)
Shareholders' funds	**1,653,455**	1,255,541	**392,220**	432,045
Shareholders' funds attributable to the Group	**199,903**	151,795	**171,518**	188,933
Contingent liabilities as at 31 December	**Nil**	Nil	**Nil**	Nil

20. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Other investments comprise:		
Unlisted equity investments in the PRC	**48,347**	48,347

In the opinion of the directors, the fair values of the other investments are not materially different from their carrying values.

21. INVENTORIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Raw materials	**384,690**	340,403
Work in progress	**45,920**	82,217
Finished goods	**444,066**	315,161
Spare parts and consumables	**2,371**	4,446
	877,047	742,227

Included in the inventories of the Group at the balance sheet date are the following amounts stated at their net realisable values:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Raw materials	**228,512**	229,120
Work in progress	**–**	430
Finished goods	**441,564**	294,148
	670,076	523,698

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

The Group grants an average credit period of 90 days to its trade customers.

(a) Included in trade and other receivables of the Group are trade receivables with the following aged analysis:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**1,877,423**	1,579,645
91 – 180 days	**54,950**	223,854
181 – 365 days	**50,986**	96,396
Over 365 days	**683**	134,557
	1,984,042	2,034,452

Included in trade and other receivables is an amount of approximately RMB48,549,000 (2002: RMB48,549,000) which is owed by 四川銀通電腦系統有限責任公司（"四川銀通"）and guaranteed by 成都市商業銀行. In 2000, 四川銀通 and 成都市商業銀行 refused to honour their obligations and the Group took legal proceedings against 四川銀通 and 成都市商業銀行. In October 2000, the Group received judgement in favour of the Group from the 四川省高級人民法院. In October 2000, 成都市商業銀行 contested the case. In 2002, 中華人民共和國最高法院 granted the final judgment in favor of the Group, and 四川銀通 is required to repay the outstanding balance to the Group and 成都市商業銀行 should be responsible for related payment obligations. In the process of implementation of the decision of 中華人民共和國最高法院, the 四川省高級人民法院 decided to re-open the case. During the year, 四川省高級人民法院 decided to suspend the case. In view of the uncertainty of the outcomes, the Group has made a full allowance in respect of this receivable of RMB48,549,000.

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE (Continued)

(b) The aged analysis of bills receivable is as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**105,148**	27,313
91 – 180 days	**17,226**	28,316
	122,374	55,629

23. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

(a) Included in trade and other payables of the Group are trade payables with the following aged analysis:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**2,086,495**	2,041,699
91 – 180 days	**1,264**	5,303
181 – 365 days	**395**	1,794
Over 365 days	**16,869**	18,301
	2,105,023	2,067,097

(b) The aged analysis of bills payable is as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**153,642**	124,520
91 – 180 days	**–**	9,240
	153,642	133,760

24. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank and other borrowings				
Secured	**546,067**	549,029	**270,000**	550,000
Unsecured	**726,296**	1,940,818	**350,000**	240,000
	1,272,363	2,489,847	**620,000**	790,000
Bank and other borrowings comprise:				
Bank borrowings	**1,272,363**	2,287,847	**620,000**	790,000
Other borrowings	**–**	202,000	**–**	–
	1,272,363	2,489,847	**620,000**	790,000
The maturity of bank and other borrowings is as follows:				
On demand or within one year	**977,078**	2,061,318	**620,000**	790,000
More than one year but not exceeding two years	**295,285**	241,500	**–**	–
More than two years but not exceeding five years	**–**	187,029	**–**	–
	1,272,363	2,489,847	**620,000**	790,000
Less: Amounts due within one year shown under current liabilities	**(977,078)**	(2,061,318)	**(620,000)**	(790,000)
Amounts due after one year	**295,285**	428,529	**–**	–

The above borrowings bear interest at market rates.

At 31 December 2002, approximately RMB1,110,000,000 of the outstanding balance was guaranteed by the ultimate holding company and a fellow subsidiary for no charge.

No such guarantee was granted by the ultimate holding company and the fellow subsidiary at 31 December 2003.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**5,869**	5,938	**5,524**	5,066
More than one year but not exceeding two years	**–**	5,869	**–**	5,524
	5,869	11,807	**5,524**	10,590
Less: Future finance charges	**(345)**	(1,217)	**–**	–
Present value of lease obligations	**5,524**	10,590	**5,524**	10,590
Less: Amounts due within one year shown under current liabilities			**(5,524)**	(5,066)
Amounts due after one year			**–**	5,524

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is two years (2002: two years).

For the year ended 31 December 2003, the average effective borrowing rate was 10% (2002: 10%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

26. SHARE CAPITAL

	Total number of shares	State-owned legal person shares RMB'000	Overseas listed foreign invested shares RMB'000	Total RMB'000
Registered, issued and paid-up capital of RMB1.00 each:				
At 1 January 2002, balance at 31 December 2002 and 31 December 2003	1,197,742,000	743,870	453,872	1,197,742

27. RESERVE

	Share premium RMB'000	Accumulated (losses) profits RMB'000 *(Note)*	Total RMB'000
THE COMPANY			
At 1 January 2002	996,660	(18,889)	977,771
Net profit for the year	–	54,821	54,821
At 31 December 2002 and 1 January 2003	996,660	35,932	1,032,592
Net profit for the year	–	75,786	75,786
At 31 December 2003	996,660	111,718	1,108,378

Note: For the purpose of approving the distribution of profit, the amount shall be deemed to be the lesser of the Company's profits after appropriation to reserves as determined in accordance with HK GAAP and PRC accounting standards.

At 31 December 2003, the Company had accumulated profits amounting to RMB111,718,000 (2002: RMB35,932,000) under HK GAAP and it had an accumulated loss under the PRC accounting standards.

28. GOVERNMENT GRANTS

The amounts represent government grants to the Group for the development of communication technology. The amounts will be credited to the income statement upon approval by the relevant authorities for expenses incurred in respect of this technology. No recognition of the government grants in the income statement has been made for current year.

29. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

THE GROUP

	Capitalisation of interest RMB'000	Tax losses RMB'000	Others RMB'000	Revaluation of investment property RMB'000	Total RMB'000
At 1 January 2002					
– as previously reported	–	–	–	–	–
– adjustment on adoption of SSAP12 (Revised)	11,660	(3,287)	–	–	8,373
– as restated	11,660	(3,287)	–	–	8,373
Credit to income for the year	(432)	(888)	(1,124)	–	(2,444)
At 31 December 2002 and 1 January 2003	11,228	(4,175)	(1,124)	–	5,929
(Credit) charge to income for the year	(906)	123	(3,418)	(97)	(4,298)
At 31 December 2003	10,322	(4,052)	(4,542)	(97)	1,631

At the balance sheet date, the Group had unused tax losses of RMB264 million (2002: RMB281 million) available for offset against future profits. A deferred tax asset of RMB4,052,000 (2002: RMB4,175,000) has been recognised in respect of tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB237 million (2002: RMB253 million) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2008.

29. DEFERRED TAXATION (Continued)

THE COMPANY

	Capitalisation of interest RMB'000	Tax losses RMB'000	Revaluation of investment property RMB'000	Total RMB'000
At 1 January 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP12 (Revised)	524	(524)	–	–
– as restated	524	(524)	–	–
Charge (credit) to income for the year	963	(963)	–	–
At 31 December 2002 and 1 January 2003	1,487	(1,487)	–	–
(Credit) charge to income for the year	(26)	90	(64)	–
At 31 December 2003	1,461	(1,397)	(64)	–

At the balance sheet date, the Company had unused tax losses of RMB206 million (2002: RMB183 million) available for offset against-future profits. A deferred tax asset of RMB1,397,000 (2002: RMB1,487,000) has been recognised in respect of tax losses. No deferred tax asset has been recognsied in respect of the remaining tax losses of RMB196.7 million (2002: RMB173.1 million) due to the unpredictability of future profit streams. The unrecognized tax losses will expire in 2008.

30. DISPOSALS OF SUBSIDIARIES

	2003	2002
	RMB'000	RMB'000
(a) Net assets disposed of		
Property, plant and equipment	–	1,426,754
Inventories	–	44,353
Trade and other receivables	–	246,330
Amount due from immediate holding company	–	782
Pledged bank deposits	–	51,103
Bank balances and cash	–	79,138
Trade and other payables	–	(388,542)
Bills payable	–	(276,495)
Amount due to intermediate holding company	–	(35,839)
Taxation payable	–	(26,689)
Bank and other borrowings	–	(876,900)
Obligations under finance leases	–	(41,242)
Minority interests	–	(42,161)
Net assets	–	160,592
Gain on deemed disposals of subsidiaries	–	105,488
	–	266,080
Satisfied by:		
Interest in associates	–	266,080
Net cash outflow arising on disposal		
Bank balances and cash disposed of	–	79,138

The subsidiaries disposed of during the year ended 31 December 2002 mainly engaged in the provision of broadband network services and provision of network transmission and add-on products and did not have any significant impact on the Group's cash flows or operating results.

During the year ended 31 December 2002, these disposed subsidiaries raised fund by third parties' capital injection, resulting in dilution of the Group's interests in these companies. These companies became associates as at 31 December 2002 and deemed gains arose in 2002.

30. DISPOSALS OF SUBSIDIARIES (Continued)

(b) During the year ended 31 December 2002, the Group entered into a agreement with a third party who injected additional capital into GWB which was engaged in providing broadband network services. The deemed disposal was completed on 15 May 2002, on which date capital injection made by third party was concluded.

31. ACQUISITION OF A SUBSIDIARY

	2003	2002
	RMB'000	RMB'000
Net assets acquired:		
Property, plant and equipment	**1,751**	–
Inventories	**2,140**	–
Investment securities	**9,862**	–
Trade and other receivables	**1,927**	–
Bank balances and cash	**14,444**	–
Trade and other payables	**(1,267)**	–
Minority interests	**(8,657)**	–
Less interest acquired in prior years as associate	**(15,810)**	–
	4,390	–
Goodwill	**13,560**	–
Total consideration	**17,950**	–
Satisfied by		
Cash	**17,950**	–
Net cash outflow arising on acquisition:		
Cash consideration	**(17,950)**	–
Bank balances and cash acquired	**14,444**	–
	(3,506)	–

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital expenditure in respect of construction in progress: – contracted but not provided for in the financial statements	**31,445**	61,915	**1,593**	16,983
Capital expenditure in respect of royalties	**16,555**	–	–	–
Capital contribution in respect of investment in associates contracted but not provided for in the financial statements	–	16,540	–	–
	48,000	78,455	**1,593**	16,983

33. LEASE COMMITMENTS

(a) The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**24,204**	8,089	**2,045**	–
In the second to fifth year inclusive	**42,634**	12,918	**170**	–
	66,838	21,007	**2,215**	–

Operating lease payments represent rentals payable by the Group and the Company for certain of its office and factory properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

33. LEASE COMMITMENTS (Continued)

(b) The Group as lessor

Property rental income net of outgoings of RMB24,478,000 was RMB34,484,000 during the year (2002: net of outgoings of RMB23,527,000 amounting to RMB21,385,000).

These properties have committed tenants for an average term from one to four years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**16,951**	10,307	**10,448**	–
In the second to fifth year inclusive	**19,055**	11,206	**12,534**	–
	36,006	21,513	**22,982**	–

34. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities not yet provided for in the financial statements:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to financial institutions in respect of banking facilities utilised by:				
subsidiaries	–	–	**81,500**	121,500
associates	**715,000**	545,000	**690,000**	520,000
third parties	**30,989**	61,500	–	50,000
	745,989	606,500	**771,500**	691,500
Discounted bills with recourse	**95,748**	–	–	–

34. CONTINGENT LIABILITIES (Continued)

A claim was filed with Santa Clara Country Superior Court (Case No. CV810361) against the Group in respect of an alleged breach of contract, fraud and misappropriation of trade secrets. The claim alleged that the Group had agreed to form a joint venture for the purposes of developing and commercially marketing certain micro-hard disk drive technology which was proprietary to the plaintiffs. Although certain preliminary steps were undertaken, the Group decided not to proceed with the joint venture.

The US legal counsel acting on behalf of the Group is of the view that the allegations relating to contractual breaches and related torts are entirely without merit.

The Group subsequently filed a cross-complaint against the plaintiffs alleging that the plaintiffs had failed to comply with contractual obligations and misrepresented their abilities, experience and technology, all of which were to the detriment of the Group. The US legal counsel acting on behalf of the Group is of the opinion that the cross-complaint was made on both sound and valid legal and factual bases and that the financial exposure of the Group arising out of this claim is minimal and would not be greater that US$600,000 (being approximately RMB4.96 million).

The counsel acting on behalf of the plaintiffs recently demanded a total of US$600,000, approximately RMB4.96 million, to settle the claim.

The Directors are of the opinion that the ultimate damages should fall below US$600,000 and as the exact amount cannot be ascertained reliably at this stage, no provision in respect of the damages has been made in the financial statements during the year.

35. PLEDGE OF ASSETS

At the balance sheet date, the Group and the Company had bank deposits amounting to approximately RMB292,800,000 (2002: RMB670,829,000) and RMB289,800,000 (2002: RMB615,204,000), respectively pledged to banks to secure general banking facilities granted to the Group and the Company.

At the balance sheet date, the Group pledged its property, plant and equipment with a net book value amounting to approximately RMB254,353,000 (2002: RMB258,387,000) to banks to secure general banking facilities granted to the Group.

36. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Related party transactions

During the year, the Group entered into the following transactions with its related parties:

(a) *Ultimate holding company and fellow subsidiaries other than the Group*

	2003	2002
	RMB'000	RMB'000
Rental income received	**1,382**	–
Purchase of components and parts	**432**	17,369
Rental expenses paid	**143**	–
Sales of products	**35**	633
Guarantees given by ultimate holding company	**–**	1,100,000
Guarantees given by a fellow subsidiary	**–**	10,000
Interest expenses paid	**–**	449

(b) *Associates*

	2003	2002
	RMB'000	RMB'000
Sales of products	**2,424,167**	1,448,317
Rental income received	**37,870**	21,698
Royalty income received	**44,345**	–
License fees paid	**13,243**	13,243
Purchase of components and parts	**6,047**	116,051
Processing fees paid	**3,165**	4,478
Sales of property, plant and equipment	**349**	–
Acquired patent and technology	**–**	130,082

The above transactions were carried out at cost plus a percentage profit mark-up or terms agreed by relevant parties.

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Related party balances

At the balance sheet date, the Group and the Company had the outstanding balances with the following related parties:

(a) Ultimate holding company and fellow subsidiaries other than the Group

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Amount due from ultimate holding company	**4**	–
Amounts due from fellow subsidiaries	**13,908**	14,071
Amounts due to fellow subsidiaries	**402**	–

(b) Associates

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current portion				
Amount due from an associate	**6,505**	–	–	–
Current portions				
Amounts due from associates	**782,194**	810,596	**20,770**	–
Amount due to an associate	**133,467**	174,398	**4,152**	–

In the opinion of the directors, the amount due from an associate as at 31 December 2003 of HK$6,505,000 (2002: Nil) will not be received within the next twelve months. Accordingly, it is classified as non current.

(c) Subsidiaries of the Company:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Amounts due from subsidiaries	–	80,254
Amounts due to subsidiaries	**1,585**	112,599

All the above balances are non-interest bearing and have no fixed repayment terms.

37. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Group disposed of 15% interest in Kaifa Magnetic to independent third parties for a consideration of approximately RMB37,704,000.

(b) Subsequent to the balance sheet date, the Group disposed of its entire interest in Kingston, an associate, for a consideration of US$3,850,000 (equivalent to RMB31,866,000).