

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

### 1. GENERAL

The Company is a sino-foreign joint venture joint stock limited company established in the People's Republic of China (the "PRC") on 20 March 1998. 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.

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.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

**4. BUSINESS SEGMENT INFORMATION**

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

	Six months ended 30 June 2004				
	HDD and related products RMB'000	PC and PC peripheral products RMB'000	Property investment RMB'000	Eliminations RMB'000	Consolidated RMB'000
TURNOVER					
External sales	3,728,130	1,158,796	10,197	–	4,897,123
Inter-segment sales (Note)	774,043	–	–	(774,043)	–
Total	4,502,173	1,158,796	10,197	(774,043)	4,897,123
SEGMENT RESULTS	137,489	(29,077)	9,497	(552)	117,357
Unallocated other income					20,915
Unallocated corporate expenses					(9,375)
Profit from operations					128,897

<b>Six months ended 30 June 2003</b>				
	<b>HDD and related products</b>	<b>PC and peripheral products</b>	<b>Eliminations</b>	<b>Consolidated</b>
	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER				
External sales	4,446,901	846,282	–	5,293,183
Inter-segment sales (Note)	848,039	1,153	(849,192)	–
Total	<u>5,294,940</u>	<u>847,435</u>	<u>(849,192)</u>	<u>5,293,183</u>
SEGMENT RESULTS	<u>181,196</u>	<u>(85,239)</u>	<u>–</u>	95,957
Unallocated other income				26,870
Unallocated corporate expenses				<u>(7,671)</u>
Profit from operations				<u>115,156</u>

Note: Inter-segment sales are charged at cost plus a percentage profit mark-up.

**5. OTHER OPERATING INCOME****Six months ended 30 June**  
**2004**                      **2003**RMB'000                      RMB'000  
(Unaudited)                      (Unaudited)

Included in other operating income are as follows:

Dividend income from other investments	1,650	—
Interest income	20,915	26,870
Rental income received from associates	14,590	12,963
	<u>          </u>	<u>          </u>

**6. PROFIT FROM OPERATIONS****Six months ended 30 June**  
**2004**                      **2003**RMB'000                      RMB'000  
(Unaudited)                      (Unaudited)

Profit from operations has been arrived at after charging:

Amortisation of goodwill (included in administrative expenses)	899	221
Amortisation of intangible assets	18,211	18,211
Depreciation and amortisation of property, plant and equipment	137,881	121,684
	<u>          </u>	<u>          </u>

**7. INCOME TAX EXPENSE****Six months ended 30 June**  
**2004**                      **2003**RMB'000                      RMB'000  
(Unaudited)                      (Unaudited)

Current tax:

PRC	13,094	12,047
Hong Kong	4,095	4,827
	<u>          </u>	<u>          </u>

Taxation attributable to the Company and its subsidiaries  
Share of taxation of associates

17,189	16,874
41,800	33,422
<u>          </u>	<u>          </u>
58,989	50,296
<u>          </u>	<u>          </u>

PRC income tax is calculated at the rate of 15% (2003: 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% (2003: 17.5%) of the estimated assessable profit for the period.

**8. DIVIDEND**

The directors do not recommend the payment of an interim dividend for the period.

**9. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit for the period of RMB129,521,000 (six months ended 30 June 2003: net profit of RMB66,918,000) and on 1,197,742,000 shares (six months ended 30 June 2003: 1,197,742,000 shares) in issue during the period.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent an aggregate amount of RMB55,695,000 (six months ended 30 June 2003: RMB121,424,000) on additions to property, plant and equipment.

**11. INVESTMENT PROPERTIES**

The investment properties were revalued by directors. In the opinion of the directors, the fair value of the investment properties at 30 June 2004 is not materially different from this valuation.

**12. 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:

	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	1,280,710	1,877,423
91 – 180 days	60,830	54,950
181 – 365 days	77,302	50,986
Over 365 days	21,355	683
	<u>1,440,197</u>	<u>1,984,042</u>

Included in trade and other receivables is an amount of approximately RMB48,549,000 (31.12.2003: 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 was 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 ended 31 December 2003, 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 during the year ended 31 December 2003. However, during the period, 四川省高級人民法院 decided to re-open the case again. The Directors are of the opinion that the outcome is uncertain and no reversal in respect of the allowance has been made during the period.

**12. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE** *(Continued)*

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

	<b>30.6.2004</b> RMB'000 (Unaudited)	<b>31.12.2003</b> RMB'000 (Audited)
Within 90 days	59,954	105,148
91 – 180 days	24,883	17,226
	<hr/>	<hr/>
	84,837	122,374
	<hr/>	<hr/>

**13. TRADE AND OTHER PAYABLES AND BILLS PAYABLE**

(a) Included in trade and other payables were trade payables with the following aged analysis:

	<b>30.6.2004</b> RMB'000 (Unaudited)	<b>31.12.2003</b> RMB'000 (Audited)
Within 90 days	1,506,184	2,086,495
91 – 180 days	27,708	1,264
181 – 365 days	49,195	395
Over 365 days	53,092	16,869
	<hr/>	<hr/>
	1,636,179	2,105,023
	<hr/>	<hr/>

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

	<b>30.6.2004</b> RMB'000 (Unaudited)	<b>31.12.2003</b> RMB'000 (Audited)
Within 90 days	203,710	153,642
	<hr/>	<hr/>

**14. CAPITAL COMMITMENTS**

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

	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Capital contribution in respect of investment in associates contracted but not provided for in the financial statements	339,280	—
Capital expenditure in respect of construction in progress contracted but not provided for in the financial statements	9,691	31,445
Capital contribution in respect of royalties	—	16,555
	<u>348,971</u>	<u>48,000</u>

**15. CONTINGENT LIABILITIES**

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

	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Guarantees given to financial institutions in respect of banking facilities utilised by associates	480,000	715,000
Guarantees given to financial institutions in respect of banking facilities utilised by third parties	<u>56,054</u>	<u>30,989</u>
Discounted bills with recourse	<u>20,219</u>	<u>95,748</u>

(b) A claim has been 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 than US\$0.6 million (approximately RMB4.96 million).

**15. CONTINGENT LIABILITIES** *(Continued)*

The counsel acting on behalf of the plaintiffs recently demanded a total of US\$0.6 million, approximately RMB4.96 million, to settle the claim.

The Directors are of the opinion that the ultimate damages should fall below US\$0.6 million 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 period.

**16. RELATED PARTY TRANSACTIONS****(i) Related party transactions**

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

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

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	919	—
Purchase of components and parts	468	472

(b) Associates

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	981,559	1,338,441
Rental income received	14,590	12,963
Purchase of components	—	4,292
Processing fees paid	1,715	1,458
Acquired patent and technology	—	180
	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)

Guarantees given to financial institutions  
in respect of banking facilities granted  
to associates

480,000

715,000

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

**16. RELATED PARTY TRANSACTIONS** *(Continued)***(ii) Related party balances**

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

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

	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amount due from ultimate holding company	—	4
Amounts due from fellow subsidiaries	13,634	13,908
Amounts due to fellow subsidiaries	115	402
	<u>          </u>	<u>          </u>

(b) Associates:

	<b>30.6.2004</b>	<b>31.12.2003</b>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Non-current portions		
Amount due from an associate	6,505	6,505
Current portions		
Amounts due from associates	924,674	782,194
Amounts due to associates	114,788	133,467
	<u>          </u>	<u>          </u>

(c) Minority shareholders of subsidiaries

Amounts due from related companies	<u>12,437</u>	<u>—</u>
------------------------------------	---------------	----------

All the above balances have no fixed repayment terms.