

PRINCIPAL ACTIVITIES

The Group's major businesses cover parts and components of computers, whole sets of computers, software and system integration and broadband network value-added services, the major products of which include research and development, manufacture and sale services of, PCs and PC peripheral products, HDDs and HDD related products, network terminal and optical-electronic products, and products and services relating to broadband network services and other telecommunications value-added product business, as well as software and system integration.

SEGMENT INFORMATION

Analysis of the Group's turnover and contribution to profit from operations for the year ended 31 December 2004 by geographical market and principal activity is set out in note 5 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

Purchases from the Group's single largest supplier and the Group's top five largest suppliers accounted for approximately 24% and 33% respectively of the total purchases of the Group for the year ended 31 December 2004. Sales to the Group's single largest customer and the Group's top five largest customers accounted for approximately 32% and 49% respectively, of the total turnover of the Group for the year ended 31 December 2004.

As far as the directors are aware, none of the directors or any of their associated company, within the meaning of the Rules Governing the Listing of the Securities on the HKSE (the "Listing Rules"), or those shareholders which to the knowledge of the directors own more than 5% of the share capital of the Company have an interest in any of the five largest customers of the Group for the year.

RESULTS AND APPROPRIATIONS

The results and appropriations of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 30 of this annual report.

DIVIDEND

The Board has recommend payment of a dividend of approximately RMB50,305,000 as at 31 December 2004 (as at 31 December 2003: nil).

RESERVES

Details of the movements during the year ended 31 December 2004 in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 34 of this annual report.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five years and the summary of the assets and liabilities for the past five years are set out on page 87 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2004 in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

SHARE CAPITAL STRUCTURE

	As at 31 December 2004 (audited) Number of shares	As at 31 December 2003 (audited) Number of shares
State-owned legal person shares	743,870,000	743,870,000
Oversea listed foreign shares (H Share)	453,872,000	453,872,000
Total	1,197,742,000	1,197,742,000

Note: There was no change in the share capital structure of the Company during the reporting period and during the period from 31 December 2004 up to the results announcement date.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following parties held an interest of 5% or more in the issued share capital of the Company according to the Company's records.

Name of shareholder	Class of shares	Number of Shares held	Shareholding percentage in the total issued capital
Great Wall Group	State-owned legal person shares	743,870,000	62.11%
The Hong Kong and Shanghai Banking Corporation Ltd.	H shares	87,063,500	7.27%

Save as disclosed above and so far as the Directors, chief executive officers and supervisors of the Company are aware, as at 31 December 2004, no other person (other than the Directors, chief executives or super visors of the Company as disclosed below) had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under provisions of Divisions 2 and 3 Part XV of the Securities and Futures Ordinance ("SFO"), or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or which was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing Securities on the HKSE (abbreviated as the "Listing Rules")) of the Company.

BORROWINGS AND INTEREST CAPITALISED

Details of bank borrowings of the Group and the Company are set out in notes 24 to the financial statements.

No interest was capitalized in the construction in progress of the Group as at 31 December 2004.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2004, the Group had no any designated deposits nor had any overdue and unrecoverable time deposits with any financial institutions.

SUBSIDIARIES AND ASSOCIATED COMPANY

Details of the Company's subsidiaries and associated companies as at 31 December 2004 are set out in notes 18 and 19 respectively, to the financial statements.

PURCHASE, SALE AND REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY OR ANY OF ITS SUBSIDIARIES

During the year 2004, the Company had not purchased, sold or repurchased any listed securities held by the Company or any of its subsidiaries.

DIRECTORS

As at the date of this annual report, the members of the Board of Directors of the Company and their biographical notes were as follows:

Executive Directors

Mr. Chen Zhaoxiong, born in September 1961, Chinese, is the Chairman of the Board of Great Wall Technology Company Limited, Shenzhen Kaifa Technology Co., Ltd. and Hunan Computer Co., Ltd. Mr. Chen graduated from Institute of Computing Technology of Chinese Academy of Sciences with a doctorate degree, and is also a research analyst and a postgraduate doctoral student mentor. He was vice president of China Electronic Information Industry Group, and chairman of the board of directors of China Integrated Circuit Design Co., Ltd., Shanghai Pudong Software Park Co., Ltd and Zhuhai Southern Software Park Co., Ltd.. He has assumed posts as managing director of China Electronic Information Industry Group Research Institute, executive vice president of China Electronic Industry Engineering Company, president of Huajian Group, Head of Computer Language Information Centre of Chinese Academy of Sciences and Head of Machine Translation Centre, Institute of Computing Technology of Chinese Academy of Sciences and the like.

Mr. Lu Ming, born in 1950, is an executive director of the Company. He is responsible for production technology development and marketing activities of the Company. Mr. Lu is also the chairman of CGC. He joined the Great Wall Group in 1986. Mr. Lu graduated from the Chinese Academy of Sciences with a master's degree in computer science and completed post-graduate studies at the High Energy Physics Research Institute in Hamburg, Germany. Mr. Lu has over 24 years' of experience in the information technology industry. Mr. Lu was previously also the vice president of the Company, but he resigned from that position with effect from 12 April 2002.

Mr. Tam Man Chi, born in 1948, is an executive director of the Company. He is responsible for the Company's marketing strategy and technology development. Mr. Tam is also a director of Kaifa. Mr. Tam has 36 years' of management experience in the international electronics industry. Mr. Tam was previously the vice president of the Company, but he resigned from that position with effect from 23 April 2003.

Ms. Huang Rongfang, born in 1944, is an executive director of the Company. Ms. Huang graduated from Beijing University and holds the title of senior accountant. Ms. Huang is also a director of CGC. Before joining Great Wall Group, she was deputy chief officer of the Finance Bureau of China Electronic Industry General Company and chief financial officer of China Electronic Information Industry Group. Ms. Huang has over 36 years' of experience in the information technology industry.

Mr. Wang Jincheng, born in 1936, is a senior engineer and a committee member of the Chinese People's Political Consultative Conference. He graduated from the Beijing Science and Technology University (formerly known as the Beijing Industrial Institute) with a major in wireless radar. Mr. Wang was mayor of Mian Yang, chairman of the board of directors of China Unicom Co. Ltd., chairman of the board of directors and general manager of China Electronic Information Industry Group. He is currently a member of the National Scientific and Technological Advanced Research's Evaluation Committee, the Standing Director of the Chinese Aeronautics Committee as well as the Chairman of the Electronics Branch of the Chinese "Divine Sword" Space Committee. On 17 January 2005, Mr. Wang was elected executive director of the Company, the appointment of whom was approved on the Extraordinary General Meeting.

Mr. Gao Keqin, born in 1968, was appointed executive director of the Company with effect from 12 April 2002. Mr. Gao Keqin graduated from the Beijing Aeronautics & Astronautics University. In 1990, Mr. Gao worked at the 710 research institute of the Ministry of Aeronautics & Astronautics. He had worked for China Hewlett-Packard as its marketing manager, for Intel China Ltd. as its business development manager of E-commerce and its senior marketing manager, and for GWCSS as its general manager successively.

Independent Non-executive Directors

Mr. Li Sanli, born in 1935, graduated from Tsinghua University in 1955 and obtained his PhD from the Academy of Sciences of the previous USSR in 1960.

Ms. Wang Qinfang, born in 1943, graduated from the Industrial Accounting Faculty of the Shanghai Institute of Finance and Economics. She holds the title of senior accountant and a PRC certified public accountant certificate. She was Director of the Finance Department of China Electronic Industry Co., Ltd., Director of the Economic Adjustment Department of the PRC Ministry of Electronics and General Manager of the China Electronic Information Trust & Investment Co. Ltd. Ms Wang is currently Deputy Director of the Electronic Branch of China Accounting Society. On 17 January 2005, Ms. Wang was elected independent non-executive director of the Company, the appointment of whom was approved on the Extraordinary General Meeting.

Rupert X. Li is a native of Shanghai who went to the United States for schooling in the early 1980's. He attended Shanghai Institute of Foreign Languages from 1979 to 1980 and received a B.A. from Columbia University and a J.D. from New York University. A member of the California Bar, he has practiced international commercial law in Hong Kong and China for the last 13 years. Mr. Li founded the China capital markets practice for Coudert Brothers in 1991. Prior to his tenure as the Managing Director for a mid-sized Hong Kong listed company in early 1998, Mr. Li advised on many of the major securities deals originating in China and is well-regarded in the PRC-related capital market. Mr. Li returned to full-time law practice in January 2002. Mr. Li joined Morrison & Foerster LLP in August of 2003. In addition his capital markets expertise, Mr. Li also specializes in foreign direct investment, project finance and media related acquisitions. Mr. Li is fluent in Mandarin, Shanghainese, and Cantonese as well as English.

Supervisors

As at the date of this annual report, the members of the Supervisory Committee of the Company and their biographies are as follows:

Mr. Diao Guoxin, born in 1975, graduated from the Renmin University of China with a bachelor's degree of Arts. He currently studies a master's degree in Western Economy at the Renmin University of China. Mr. Diao joined the Great Wall Group in 1998 as the secretary to the chairman and the general manager. He is currently the supervisor of the general office of the Company. On 21 June 2004, Mr. Diao was elected supervisor of the Company, the appointment of whom was approved on the general meeting, and was elected chairman of the supervisory committee.

Mr. Li Ruiyue, born in 1968, obtained his master's degree from the China University of Political Science and Law before obtaining his PhD in 2004. He used to work with PetroChina Liaohe Oilfield and as the assistant to the deputy general manager and the lawyer of CITIC Group. Currently Mr. Li works as the director of the Legal Department of CITIC Asset Management Corporation. On 21 June 2004, Mr. Li was elected supervisor of the Company, the appointment of whom was approved on the general meeting.

Mr. Qin Maojun, born in 1969, obtained his master's degree in finance from the China Institute of Social Science. He used to serve as the executive deputy general manager of Lanzhou Trust and Investment Company Shenzhen Securities Branch, the head of investment department of China Economic Development Trust and Investment Company Beijing 2nd Branch, and the manager of finance and securities department of Huayunda Group. He then joined SEEC (中國證券市場研究設計中心 (聯辦)) & Homeway.com (和訊公司) as a senior analyst and currently he serves CCTV (中央電視台) as special observer and works with different internet websites such as SINA, SOHU, HOMEWAY, TOM and China Economy Net (中國經濟網) and special column of the like as senior analyst and staff writer. On 21 June 2004, Mr. Qin was elected supervisor of the Company, the appointment of whom was approved on the general meeting.

Company Secretary

As at the date of this annual report, the company secretary of the Company and her biographical note is as follows:

Ms. Chen Yanming, born in 1962, graduated from and has obtained Master's degrees from the Richard Ivey School of Business, The University of Western Ontario, Canada and the Murdoch University, Perth, Western Australia in the fields of business administration. Ms. Chen Yanming had participated in the reorganization and listing of the Company and was, from the period of March 1998 to April 2003, the company secretary and external spokesperson of the Company. Ms. Chen Yanming had been secretary to the board of directors of Shenzhen Kaifa Technology Co., Ltd, the A shares of which are listed on the Shenzhen Stock Exchange, for 8 years. Afterwards, she took up office as senior administration director of Shenzhen Kaifa Magnectic Recording Co., Ltd. and administration director of the Company, and director and vice president of O-Net Communication LTD. Ms. Chen has accumulated a wealth of experience in the operational management, capital operation, investors' relation and corporate governance of listing companies.

Other Senior Management

As at the date of this annual report, other senior management and their biographical notes are as follows:

Ms. Zeng Yanming, born in 1945, is general manager of the Beijing Branch. She had been the technology department, quality department, assets management department and marketing department of the Great Wall Group. She joined the Great Wall Group in 1986. Ms. Zeng graduated from the Beijing Postal and Telecommunication College with a bachelor's degree in radio engineering.

Mr. Sima Nai, born in 1952, is vice president of the Company. He graduated from electro-vacuum application specialty of Electronic Engineering Faculty, Dong Nan University. Mr. Sima also holds an MBA degree from The Macau University of Technology. He is a postgraduate and a senior engineer. Mr. Sima is director and deputy general manager of Kaifa Magnetic. Mr. Sima had been the factory director, the chief engineer and the director of research institute of 蘇州電真空器件總廠. He had also been chairman of 新光電子有限公司, a sino-foreign equity joint venture company, party committee member of 蘇州盤門旅遊開發(集團)有限公司 and deputy general manager of 亦華投資開發公司, an equity joint venture company. He joined Shenzhen Kaita Magnectic Recording Co., Ltd. in 1998. Mr. Sima was appointed vice-president by the Board of the Company on 23 April 2003.

Mr. Sun Ziqiang, born in 1964, is vice president of the Company and holds a bachelor's degree in engineering. He had been director and general manager of 北京長通聯合寬帶網絡技術有限公司, vice-president of 諾定(中國)投資有限公司, executive director of 北京紅帆網神通信技術有限公司, director of China Plus Telecom Co, Ltd (BVI), director of 重慶信息產業發展有限公司 and director of 上海達因信息技術股份有限公司. Mr. Sun Ziqiang was appointed vice-president by the Board of the Company on 23 April 2003.

Mr. Tian Yuchuan, born in 1964, a senior economist, joined the Company in January 2004 as vice president and chief financial officer. He is responsible for the operational and financial management of the Company. He graduated from Lester B. Pearson College of the Pacific in Canada in 1985 and graduated from the Beijing Foreign Studies University with a Bachelor's Degree (Arts) in English and American Language and Literature in 1986. He is currently a director of Shenzhen Kaifa Technology Co., Ltd and a director of Great Wall Broadband Network Service Co., Ltd. Previously, Mr. Tian Yuchuan had been an executive director of CITIC Resources Holdings Co., Ltd., deputy managing director of CITIC New Zealand Investments Ltd., director of CITIC USA Holding Inc, director of CITIC Canada Inc, vice president of Citifor Inc, director of Citifor Chile Ltd, associate of Investment Banking Division of Credit Suisse First Boston (Hong Kong) Limited, member of the preparatory committee of CITIC Securities Company Limited, deputy general manager of Canada Pacific Panorama Investments Ltd, secretary of General Office of CITIC and project manager of Business Development Division of the Business Department of CITIC. Mr. Tian has over 19 years' experience in industries covering multi-national businesses, corporate management, international investment and investment banking.

Mr. David Yang, graduated from The Hong Kong University of Science & Technology with a master's degree in business administration. Mr. Yeung is a fellow member of Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants (CIMA), and a member of the American Institute of Certified Public Accountants (AICPA) and Hong Kong Securities Institute. Mr. Yeung was appointed senior financial consultant of the Company on 27 September 2004.

Mr. Wu Kaiming, born in 1948, is a senior engineer. Mr. Ng graduated from the wireless technology specialty of Beijing Institute of Technology. He is currently director of the Great Wall Group and chairman of the board of directors of China Computer Leasing Company Limited. Mr. Ng was appointed vice president of the Company on 7 March 2005.

BIOGRAPHICAL NOTES OF RETIRED DIRECTORS, SUPERVISORS AND COMPANY SECRETARIES OF THE COMPANY FOR THE PERIOD FROM 1 JANUARY 2004 TO THE DATE OF THIS ANNUAL REPORT

Executive Directors

Mr. Wang Zhi, born in 1942, joined the Great Wall Group in 1985, and was one of its founders. Before joining the Great Wall Group, Mr. Wang was a deputy director of the Computer Bureau under the Ministry of Electronics Industry. He graduated from Harbin Military Academy of Science with a bachelor's degree in wireless communication. Mr. Wang has over 39 years' of experience in the information technology industry and he is still the honorary president of China Computer Industry Association. Mr. Wang Zhi resigned from the post as Chairman and President of the Company when his tenure of office expired on the general meeting held on 21 June 2004.

Mr. Qiao Zhong Tao, born in 1944, graduated from the Beijing Aeronautics & Astronautics University and holds the title of Senior Engineer. He used to be deputy managing director of Kaifa, section chief of the Ministry of Electronics Industry, deputy manager of Zhuzhou Municipal Government and deputy general manager of 深圳希捷公司. He was appointed executive director of the Company on 23 April 2003. Mr. Qiao Zhong Tao resigned from the post as executive director of the Company on 17 January 2005 for personal reasons.

Independent Non-executive Directors

Mr. Chang Zhenming, born in 1956, is president of China Construction Bank. He had taken offices as executive director and deputy general manager of CITIC Group and president of CITIC Holdings (中信金融控股有限公司). He holds a bachelor's degree in Japanese from the Beijing No. 2 Foreign Language Institute and an MBA degree from the New York Insurance Institute. Mr. Chang Zhenming resigned from the post as independent non-executive director of the Company on 17 January 2005 for personal reasons.

Supervisors

Mr. Di Xiaofeng, born in 1961, is a supervisor of the Company. Mr. Di has been the chairman of the supervisory committee of Shanghai Yongsheng Company Limited since January 1999. He graduated from the Research Institute of the China Academy of Social Science with a master's degree in law and is a qualified lawyer in the PRC. Mr. Di Xiaofeng resigned from the post as supervisor of the Company when his tenure of office expired on the general meeting held on 21 June 2004.

Company Secretaries

Mr. Lu Ning, born in 1959, graduated from Beijing Aeronautics and Astronautics University with a master's degree in engineering. He had been chief operating officer of the Industry Services Group of Siemens (China), senior business development manager of Telecom Industry of Compaq (China) Investment Company Limited, marketing manager of Chips and Software Solutions System Division of Motorola (China), senior business development manager of China Region of Global Smart Card System Division of Motorola (China), project manager and subsequently China manager of Space and System Technology Group of Motorola (China). Mr. Lu Ning was appointed secretary to the board of directors of the Company on 23 April 2003 and resigned from the position in February 2004 due to personal reasons.

Mr. Chen Yisong, born in 1968, is a holder of master's degree in Finance from Hunan University. He used to work as secretary to the deputy general manager of CITIC Group and served CITIC Securities Co., Ltd as the head of CEO office. Before that, he worked in the capital department of CITIC Industrial Bank. He has accumulated abundant experience in investment banking, merger and acquisition and corporate management. Mr. Chen Yisong was appointed company secretary of the Company on 1 March 2004 and resigned from the position in November 2004 for personal reasons.

The Company hereby extends its sincere gratitude to the above retired directors, supervisors, company secretaries for their contributions to the development of the Company in the past.

■ CORPORATE GOVERNANCE STRUCTURE

Corporate Governance

In accordance with relevant laws and regulations, the Company had established inter-restricting management systems comprising general meeting, board of directors, supervisory committee and management, which were characterized by clear division of work and responsibility. In practical operation, the Company had been perfecting its corporate governance structure, regulating itself and strengthening information disclosure.

Directors and Board of Directors

Directors of the Company had observed strictly their commitments made public and performed their obligations with faithfulness, integrity and diligence. The composition of the board of directors of the Company was accordant with relevant laws and regulations. The board of directors of the Company had held itself responsible to the general meeting, convened regular meetings and extraordinary meetings according to legal procedures, exercised its powers of office according to laws, regulations and Articles of Association and taken good care of interests of the Company and shareholders as a whole.

There are specialized Board committees under the Board of Directors, namely the Audit Committee, the Nomination and Remuneration Committee and Strategic Development and Risk Control Committee. These specialized Board committees function to play very significant roles in the course of decision-making of the Board of Directors. Meanwhile, the Company will further perfect the composition and establishment and operations of specialized committees under the Board of Directors subject to the requirements of the Code on Corporate Governance Practices and Rules enacted by Hong Kong Stock Exchange.

Performance of Obligations by the Independent Non-Executive Directors

Since assuming office, the Independent Non-Executive Directors had performed conscientiously their obligations entrusted by laws, regulations and Articles of Association with an attitude responsible to the shareholders as a whole. They had offered advice for the long-term development and management of the Company, and had fulfilled their duties in the daily work and the key decision-making of the Board of Directors. They had also safeguarded earnestly the interests of the Company and the shareholders as whole.

Supervisors and the Supervisory Committee

According to laws, regulations and Articles of Association with an attitude responsible to the shareholders as a whole, the Supervisory Committee of the Company had been able to perform conscientiously their obligations, accomplish standardized operation and supervise the Company's financial status and compliance with laws and regulations in the performance of duties by the Directors, general managers and other senior management, and had been able to safeguard the legal interests of the Company and the shareholders as a whole.

Shareholders and General Meetings

The Company had abided by relevant requirements to convene general meetings to ensure that the shareholders may exercise their voting rights according to law. During the Period, the Company had convened the 2003 General Meeting on 21 June 2004 and all procedures of the Meeting had been consistent with the requirements of the Company Law and the Articles of Association.

Relationship between the Controlling Shareholder and the Company

Great Wall Group, the controlling shareholder of the Company had exercised its rights as a capital contributor according to law and had not interfered with the decision-making and production and operation activities of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into, or existed of any time, during the year ended 31 December 2004.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules. The Directors are in the opinion that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS

During the year ended 31 December 2004, the Company had not granted any right to any Directors or Supervisors and their spouses or children less than 18 years of age to subscribe for equity interests in the Company. The interests of the Directors and Supervisors in the shares of the Company or its associated corporation are set out in the section headed "Directors and Supervisors' interests in Shares" below.

DIRECTORS' CHIEF EXECUTIVE OFFICERS' AND SUPERVISORS' INTERESTS IN SHARES OF THE ASSOCIATED CORPORATIONS

As at 31 December 2004, the interests of the Directors, chief executive officers and supervisors of the Company in the shares of the associated corporations of the Company (as defined in Part XV of the SFO) were as follows:

1. Personal Interests

Name of Director	Number of Shares held	Approximate percentage of total issued share capital
Mr. Lu Ming	63,600 employee shares of CGC	0.01%
Mr. Tam Man Chi	714,025 employee shares of Kaifa	0.097%
Ms. Huang Rongfang	63,600 employee shares of CGC	0.01%
	218,500 assigned Legal Person Shares of Kaifa	0.029%

2. Corporate Interests

Name of Director	Number of shares held	Approximate percentage of total issued share capital
Mr. Tam Man Chi	68,952,000 Legal Person Shares of Kaifa (Note 1)	9.41%

Note:

1. Broadata (H.K.) Limited ("Broadata") held 9.41% of the overseas legal person shares in Kaifa. Flash Bright International Limited held 61.76% shares in Broadata. Mr. Tam and his spouse held 100% equity shares in Flash Bright International Limited.

Save as disclosed above and so far as the Directors, chief executive officers and supervisors of the Company are aware, as at 31 December 2004, no other Directors, chief executive officers or supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, chief executive officers or supervisor is taken or

deemed to have under such provisions of the SFO) of which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals of the Company during the year 2004 are set out in note 10 to the financial statements.

CONNECTED TRANSACTIONS

Details of the Group's connected transactions during the year 2004 are set out in note 35 to the financial statements.

OTHER DISCLOSURES

Litigation

CGC

Note dispute and loan dispute with Sichuan Yintong Computer System Co. Ltd.

CGC was involved in a note dispute and loan dispute with Sichuan Yintong Computer System Co. Ltd. ("Yintong") and Chengdu Commercial Bank ("Chengdu Bank"). By its civil case judgement (2000) Chuan Jing Chu Zi 17 and other documents, the Sichuan Higher People's Court has ruled in favour of CGC. The said judgment has come into effect and was being enforced. However, since Chengdu Bank, which had a joint guarantee liability related to the subject matter of the case, has raised objections in relation to the proceedings and other matters and made an application for re-trial, the Sichuan Higher People's Court has suspended the enforcement of the said judgment by its verdict (2001) Chuan Jing Jian Zi 53 on 3 February 2001. On 17 December 2003, the Sichuan Higher People's Court issued the Urgent Notice Regarding the Trial and Enforcement of Cases in Relation to the Rectification of Investment and Trust Companies by the Provincial Government (Chuan Gao Fa [2003] 486). The notice stipulated that prior to 30 June 2004, there would be no acceptance, trial or enforcement regarding cases in which any of five financial institutions, including Chengdu Bank, was/were the debtor. Currently, the case is in the status of retrial and panel discussion.

As at 31 December 2004, pursuant to the relevant standards stipulated in CGC's corporate accounting system and bad debts policy, and in view of past experience, the debtor's financial status and other information, CGC has made a bad debts provision of RMB48,548,789.38 for the full amount of the debt.

Investment

- On 10 December 2004, CGC, a subsidiary owned as to 60.47% by the Company had entered into an agreement with IBM International Holdings B.V., a company incorporated in Holland and hereinafter abbreviated as "IBM" to form ISTC by way of cash contribution. The proposed initial total investment involved was US\$7 million, of which US\$ 3.5 million was registered capital. The shares of the company were held respectively as to 80% and 20% by IBM and the Company. The difference between the total investment and registered capital will be financed by the company itself after its incorporation. The company will be engaged in the processing and manufacturing of high-end products including servers.

- On 24 November 2004, Kaifa Magnetic, a subsidiary of the Company, had co-invested with 日本東洋鋼板株式會社 (Toyo Kohan Corporation) and 日本丸紅株式會社 (Marubeni Corporation) to form 深圳東紅開發磁片有限公司 to manufacture HDD glass substrates. The new project involves a total investment of US \$ 17.5 million, with US\$7 million as the registered capital. Kaifa Magnetic was responsible for 49% of the capital contribution. The formation of 深圳東紅開發磁盤有限公司 co-invested by the Group and the foreign partner will enrich the product line of magnetic recording and accomplish the Group's advancement into the high-end product field, thus realizing early our target to come up to top three in this industry.

Warning:

The Company's associate Great Wall Broadband Network Service Co., Ltd. ("GWB") was established in 2000. Up to the date of this report, GWB is owned as to 50% by 中信網絡有限公司, and the Company also holds a 35% direct interest in GWB and each of Shenzhen Kaifa Technology Co., Ltd. and China Great Wall Computer (Shenzhen) Co., Ltd., both are subsidiaries of the Company, holds a 7.5% interest in GWB.

Due to the fierce competition in the industry and substantial capital requirement, as at the end of 2004, GWB has recorded an accumulated loss of RMB703 million. As at 8th April, 2005, the Company has provided a guarantee in respect of the loan granted to GWB which amounted to RMB710 million and provided a loan of RMB120 million to GWB. There are certain risks inherent to the above guarantee and loan due to the increasing fierce competition in the PRC broadband service industry and the State's austerity measures on the macro economy.

In order to maintain control over its risk exposure, the operation team of GWB has implemented a series of reforms under the leadership of the board of GWB. The 2005 first quarter result of GWB has achieved greater improvement through the appropriate policies implemented. Currently, broadband connection service and value-added service will still be an important direction in the future IT industry. In order to support the development of GWB, the Company will provide and maintain guarantees and loans towards GWB on a continuing basis.

GUARANTEE FOR INDEPENDENT THIRD PARTY

As at 31 December 2004, the Group had provided a guarantee of approximately RMB304,820,000 in respect of bank facilities granted to third parties of which Kaifa, the Company's subsidiary, and China National Machinery & Equipment Import & Export Corporation (hereinafter as "CMEC") have collaborated on the export of Italy ENEL Smart Meter. The Bank of China had issued a performance bond for the project with CMEC as the applicant of the bond. In August 2004, the Company had provided a guarantee in an amount of not exceeding US\$25.6 million for CMEC. As at the date hereof, the Bank of China had issued performance bond of US\$22.076 million. As the Company was responsible for the funding, technology, quality control and production of the project and provides direct shipments to ENEL of Italy, the Company was the effective performer of the contract and the exposure of the bond guarantee was in fact within the control of the Company. As at the date hereof, the performance of the project was satisfactory.

GUARANTEE FOR ASSOCIATED COMPANY

As at 31 December 2004, the Group had provided guarantee of approximately RMB820,000,000 in respect of bank facilities granted to Great Wall Broadband Network Services Co, Ltd, an associated company.

Balance Sheet of the above associated company is extracted from its audited financial statements as at 31 December 2004 and is set out as follows:

	RMB'000
Non-current Assets	1,478,180
Current Assets	282,487
Current Liabilities	1,496,748
Non-current Liabilities	29,439
Shareholders' Equity	234,480
Interests attributable to the Group	102,538

Note: As at the date of this annual report, the Company had provided a guarantee totalled RMB710,000,000 in respect of the bank loans granted to Great Wall Broadband Network Services Co, Ltd, an associated company.

ADVANCE TO ASSOCIATED COMPANIES

As at 31 December 2004, the balance of advance of RMB789,726,000 represented amount due from associated companies. The balances were incurred from the ordinary course of business of the Group, of which an amount of RMB5,075,700 bears interest at the rate of 5.58% per annum. All amounts due from associated companies had no fixed repayment period. Combined Balance Sheet of the associated companies are extracted from their management accounts as at 31 December 2004 and is set out as follows:

	RMB'000
Non-current Assets	2,384,593
Current Assets	13,303,395
Current Liabilities	12,294,721
Non-current Liabilities	2,360
Minority Interest	29,753
Shareholders' Equity	3,361,154
Interests attributable to the Group	582,827

Note: As at the date hereof, the Company has provided a bridging loan of RMB121,075,700 to its associate, Great Wall Broadband Network Service Co., Ltd. The loan carries interest at the rate of 5.58% per annum.

PRE-EMPTIVE RIGHTS

According to the articles and association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

RETIREMENT BENEFIT SCHEME FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in note 8 to the financial statements.

EMPLOYEES

As at 31 December 2004, the number of employees of the Group was approximately 10,000. The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

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CHANGES IN BOARD OF DIRECTORS AND MEMBERS OF SUPERVISORY COMMITTEE

An annual general meeting of the Company was held on 21 June 2004 and the following resolutions were passed: the election of Mr. Chen Zhaoxiong as executive director of the Company; the re-election of Mr. Lu Ming, Mr. Tam Man Chi, Ms. Huang Rongfang, Mr. Qiao Zhong Tao and Mr. Gao Keqin as executive directors of the Company; the re-election of Mr. Li Sanli, Mr. Chang Zhenming and Mr. Li Xiaoru as independent non-executive directors of the Company; and the election of Mr. Diao Guoxin, Mr. Li Ruiyue and Mr. Qi Maojun as supervisors of the Company.

An extraordinary general meeting of the Company was held on 17 January 2005 and the resignations of Mr. Chang Zhenming and Mr. Qiao Zhong Tao from the offices of independent non-executive and executive director of the Company respectively for personal reasons were approved. The appointments of Ms. Wang Qinfang and Mr. Wang Jincheng as independent non-executive and executive director respectively of the Company were approved.

CODE OF BEST PRACTICE

None of the Directors of the Company are aware of any information that the Company is not or was not, for the Period ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange Limited (the "Listing Rules").

AUDIT COMMITTEE

In compliance with the additional requirements of HKSE in its Code of Best Practise, an audit committee of the Company (the "Audit Committee") was established in December 1999. Currently, there are three members in the Audit Committee, namely Mr. Li Sanli, Mr. Li Xiaoru and Ms. Wang Qinfang. By reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants, the principal duties of the Audit Committee include the review of the Company's financial reporting process, internal controls and the results of the group. During the Period, the Audit Committee held two meetings. On 8 April 2005, the Audit Committee reviewed and commented on the Company's draft annual report.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the Listing Rules.

SUBSEQUENT EVENTS

1. According to the Board Resolution dated 8 April 2005, it is agreed that CGC and Hunan Computer Co., Ltd will implement a capital increase in respect of GWCSS, a subsidiary of the Company. The capital increase arrangement is that an increase of registered capital of RMB17,683,623 to be subscribed by CGC, and RMB49,490,682 to be subscribed by Hunan Computer Co., Ltd, and that GWCSS will be paid the subscription monies at a ratio of 1.005 times, i.e., CGC will contribute RMB17,772,100 to GWCSS and Hunan Computer Co., Ltd will contribute RMB49,738,301, with the excess over the registered capital be credited to the capital accumulation fund/surplus of GWCSS. After such capital increase, the registered capital of GWCSS will increase to RMB167,174,305 as the Group's shareholding in the registered capital of GWCSS decreases from 82.54% to 55.77%.

Before the reorganization, GWCSS was owned as to 58.35% by the Company, 40% by CGC, 0.99% by minority shareholder Mr. Huo Jicai and 0.66% by minority shareholder Mr. Fu Qiang respectively. After the reorganization, GWCSS was owned as to 34.90% by the Company, 34.51% by CGC, 29.6% by 湖南計算機股份有限公司, 0.59% by minority shareholder Mr. Huo Jicai and 0.40% by minority shareholder Mr. Fu Qiang respectively.

2. After discussions and studies conducted by the Board, it is agreed that the Group will purchase a property in Beijing for the establishment of the Company's base in Beijing with an area of 4532.48 sq.m. The total investment amounted to RMB55.708 million.

By Order of the Board

Chen Zhaoxiong
Chairman

8 April 2005