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 2003, 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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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.

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 2001 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 2001 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 2001 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

Negative goodwill arising on acquisition after 1 January 2001 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.

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 plus the goodwill in so far as it has not already been amortised, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Royalty income is recognised when the rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	2004 **RMB'000**	2003 RMB'000
Sales of goods	**11,371,052**	11,074,665
Technical services income	**22,880**	27,154
Property rental income (rental income net of the outgoing: RMB23,550,000; 2003: RMB7,380,000)	**25,254**	8,018
	11,419,186	11,109,837

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.

Segment information about these businesses is presented below:

	For the year ended 31 December 2004					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property leasing RMB'000	Others RMB'000	Eliminations* RMB'000	Consolidated RMB'000
SEGMENT REVENUE						
External sales	3,581,603	7,812,329	25,254	–	–	11,419,186
Inter-segment sales	202	67,446	–	–	(67,648)	–
Total revenue	3,581,805	7,879,775	25,254	–	(67,648)	11,419,186
SEGMENT RESULTS	(118,065)	207,666	23,550	(22,363)	–	90,788
Unallocated other operating income						40,432
Profit from operations						131,220
Share of results of associates	431,383	(29,180)	–	(65,140)	–	337,063
Gain on capital contribution from a shareholder of an associate	5,000	5,000	–	23,334	–	33,334
Gain on disposal of an associate	8,240	–	–	–	–	8,240
Finance cost						(50,188)
Impairment loss recognised in respect of goodwill arising on acquisition of an additional interest in an associate	–	(24,904)	–	–	–	(24,904)
Amortisation of goodwill arising on acquisition of an associate	–	(327)	–	–	–	(327)
Profit before income tax expense						434,438
Income tax expense						(61,112)
Profit after income tax expense						373,326
Minority interests						(173,553)
Net profit for the year						199,773

* *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)

Business segments (Continued)

	As at 31 December 2004				
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property leasing RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	1,986,646	3,483,761	276,618	67,088	5,814,113
Interests in associates	560,908	454,137	–	10,902	1,025,947
Investments in securities	–	50,450	–	–	50,450
Bank balances and cash	412,654	1,028,774	–	670,601	2,112,029
Consolidated total assets					9,002,539
LIABILITIES					
Segment liabilities	974,668	1,811,338	–	19,107	2,805,113
Unallocated liabilities					945,210
					3,750,323
					5,252,216

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	For the year ended 31 December 2004				
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property rental income RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION					
Allowances for bad and doubtful debts	74,518	54,199	–	–	128,717
Capital additions	51,567	279,786	–	8,307	339,660
Surplus on revaluation of investment properties	–	–	(647)	–	(647)
Depreciation and amortisation	31,189	247,017	–	4,162	282,368
Impairment losses recognised in respect of property, plant and equipment	–	20,052	–	–	20,052
Impairment loss recognised in respect of investments in securities	–	–	–	2,897	2,897
Impairment loss recognised in respect of intangible assets	–	53,805	–	–	53,805
Impairment loss recognised in respect of goodwill arising on acquisition of an additional interest in an associate	–	24,904	–	–	24,904
(Gain) loss on disposal and write off of property, plant and equipment	(594)	2,460	–	2	1,868

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	For the year ended 31 December 2003					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property leasing RMB'000	Others RMB'000	Eliminations* RMB'000	Consolidated 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
Minority interests						(143,783)
Net profit for the year						177,657

* *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)

Business segments (Continued)

	As at 31 December 2003				
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property leasing RMB'000	Others RMB'000	Consolidated 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	685,161	1,910,344	–	22,216	2,617,721
Unallocated liabilities					1,346,644
					3,964,365
					4,886,845

	For the year ended 31 December 2003				
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Property rental income RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION					
Allowances for bad and doubtful debts	64,561	10,626	–	–	75,187
Additions of goodwill	13,560	–	–	–	13,560
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)

Geographical segments

The Group's manufacturing and sale operations and property investment are located in Hong Kong and in 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	
	2004	2003
	RMB'000	RMB'000
The PRC (including Hong Kong)	**2,095,532**	1,817,499
Asia Pacific (excluding the PRC)	**7,465,512**	8,670,409
North America	**1,669,837**	388,379
Others	**188,305**	233,550
	11,419,186	11,109,837

The 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 has not been presented as they are substantially located in the PRC.

6. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Included in other operating income are as follows:		
Royalty income	**47,105**	44,345
Interest income	**37,152**	44,841
Interest income on amount due from an associate	**3,280**	–
Gross rental income	**55,365**	50,944
Less: Outgoings	**(29,177)**	(23,839)
	26,188	27,105
Dividend income from investments in securities	**2,312**	1,144
Refund to value added tax	**4,987**	5,094
Government grants	**3,009**	2,000
Sale of scrap materials	**12,720**	–
Others	**4,675**	4,456
	141,428	128,985

7. PROFIT FROM OPERATIONS

	2004 **RMB'000**	2003 RMB'000
Profit from operations has been arrived at after charging or (crediting):		
Allowances for bad and doubtful debts, net	**128,717**	75,187
Amortisation of goodwill (included in administrative expenses)	**2,836**	2,334
Amortisation of intangible assets (included in administrative expenses)	**32,982**	36,418
Auditor's remuneration	**3,724**	3,449
(Surplus) deficit on revaluation of investment property	**(647)**	647
Depreciation and amortisation of property, plant and equipment	**246,223**	297,444
Impairment losses recognised in respect of intangible assets (included in administrative expenses)	**53,805**	–
Impairment losses recognised in respect of property, plant and equipment (included in cost of sales)	**20,052**	78,774
Impairment loss recognised in respect of investments in securities (including in administrative expenses)	**2,897**	–
Loss on disposal and write off of property, plant and equipment	**1,868**	35,163
Operating lease rentals in respect of land and buildings	**17,784**	9,663
Research and development expenses	**24,283**	10,362
Staff costs (including retirement benefit costs *(Note 8)* and directors' remuneration *(Note 10)*)	**374,939**	366,891

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 RMB14,866,000 (2003: RMB15,291,000). There were no forfeited contributions for both years.

There were no forfeited contributions available as at 31 December 2004 and 2003 to reduce future contributions.

9. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
Bank and other borrowings wholly repayable		
within five years	**49,432**	67,355
Finance leases	**756**	872
	50,188	68,227

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration:

	2004 RMB'000	2003 RMB'000
Fees	**960**	1,000
Other emoluments:		
Salaries and other benefits	**4,861**	4,089
Performance related incentive payments	**3,055**	1,932
Contributions to retirement benefit schemes	**217**	217
	9,093	7,238

The amounts disclosed above include directors' fees and other emoluments of RMB300,000 (2003: RMB300,000) paid to independent non-executive directors for the year ended 31 December 2004.

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

(a) Directors' remuneration: (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**8**	9
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
	10	11

(b) Supervisors' remuneration:

	2004	2003
	RMB'000	RMB'000
Fees	**150**	50
Other emoluments:		
Salaries and other benefits	**–**	–
Performance related incentive payments	**–**	–
Contributions to retirement benefit schemes	**–**	–
	150	50

The emoluments of the supervisors were within the following band:

	Number of supervisors	
	2004	2003
Nil to HK$1,000,000	**4**	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 two directors (2003: 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:

	2004	2003
	RMB'000	RMB'000
Salaries and other benefits	**3,340**	6,237
Performance related incentive payments	**5,752**	5,757
Contributions to retirement benefits schemes	**196**	323
	9,288	12,317

The emoluments of these individuals were within the following bands:

	Number of employees	
	2004	2003
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	1
	3	4

11. INCOME TAX EXPENSE

	2004	2003
	RMB'000	RMB'000
The income tax expense comprises:		
PRC income tax		
– current year	**32,440**	44,412
– overprovision in prior year	**(6,500)**	–
Hong Kong Profits Tax		
– current year	**6,876**	18,966
Deferred taxation *(Note 29)*	**2,603**	(4,298)
Taxation attributable to the Company and its subsidiaries	**35,419**	59,080
Share of taxation of associates		
– current year	**49,388**	69,990
– overprovision in prior year	**(23,695)**	–
	61,112	129,070

Taxation in the PRC is calculated at the rate prevailing in the PRC. Some of the subsidiaries of the Group are approved to be high technology enterprises and income tax is calculated 15% of the estimated assessable profit for the year.

Certain subsidiaries operating in the PRC are entitled to exemptions from PRC income tax for the two years commencing from its fast profit-making year of operation and thereafter, entitled to a 50% relief from PRC income tax for the next three years.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

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:

	2004 RMB'000	2003 RMB'000
Profit before income tax expense	**434,438**	450,510
Tax at the domestic income tax rate of 15% *(Note)*	**65,166**	67,577
Tax effect of share of results of associates	**(1,171)**	32,881
Tax effect of expenses not deductible for tax purpose	**46,927**	18,257
Tax effect of income not taxable for tax purpose	**(12,237)**	(1,263)
Tax effect of tax losses not recognised	**6,172**	28,105
Utilisation of tax losses previously not recognised	**–**	(5,919)
Effect of tax holidays of several PRC subsidiaries	**(14,165)**	(11,301)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**615**	733
Overprovision in respect of prior year	**(30,195)**	–
Tax expense for the year	**61,112**	129,070

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

12. DIVIDEND

	2004 RMB'000	2003 RMB'000
Final, proposed – RMB4.2 cents per share (2003: nil)	**50,305**	–

The final dividend of RMB4.2 cents (2003: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately RMB199,773,000 (2003: RMB177,657,000) and on 1,197,742,000 (2003: 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 RMB'000	Situated in the PRC under medium-term land use rights RMB'000	Staff quarters situated in the PRC under medium-term land use rights RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP							
COST OR VALUATION							
At 1 January 2004	6,302	1,093,266	152,890	1,742,366	19,630	14,998	3,029,452
Additions	76	3,365	–	269,093	2,166	64,914	339,614
Acquisition of a subsidiary	–	–	–	46	–	–	46
Disposals and write-off	–	(380)	–	(29,335)	(2,518)	–	(32,233)
Transfer	–	42,869	–	8,713	–	(51,582)	–
At 31 December 2004	6,378	1,139,120	152,890	1,990,883	19,278	28,330	3,336,879
Comprising:							
At cost	–	–	152,890	1,990,883	19,278	28,330	2,191,381
At directors' valuation							
– 31 December 2004	6,378	1,139,120	–	–	–	–	1,145,498
	6,378	1,139,120	152,890	1,990,883	19,278	28,330	3,336,879
DEPRECIATION AND AMORTISATION/ IMPAIRMENT							
At 1 January 2004	3,003	114,921	15,874	929,876	12,464	–	1,076,138
Provided for the year	645	29,459	2,765	211,093	2,261	–	246,223
Eliminated on disposals and write-off	–	(82)	–	(16,102)	(1,565)	–	(17,749)
Impairment loss for idle assets	–	–	–	19,859	193	–	20,052
At 31 December 2004	3,648	144,298	18,639	1,144,726	13,353	–	1,324,664
NET BOOK VALUES							
At 31 December 2004	2,730	994,822	134,251	846,157	5,925	28,330	2,012,215
At 31 December 2003	3,299	978,345	137,016	812,490	7,166	14,998	1,953,314

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Certain land and buildings in Hong Kong and the PRC were revalued by the directors by reference to current market condition and the directors are in the opinion that the net book values of these assets of in aggregate RMB997,552,000 as at 31 December 2004 are not materially different from the fair value as at 31 December 2004.

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 RMB998 million (2003: RMB982 million).

The Group's land and buildings situated in the PRC under medium-term land use rights carried at a cost of approximately RMB263 million (2003: RMB226 million) and accumulated depreciation and amortisation of approximately RMB31.7 million (2003: RMB25.5 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 (2003: nil).

The net book value of plant and machinery includes an amount of RMB7,333,000 (2003: RMB10,610,000) in respect of assets held under finance leases.

The directors conducted reviews of the Group's plant, machinery and equipment and determined that a number of those idle assets were impaired due to physical damage and technical obsolescence. Accordingly, impairment losses of RMB20,052,000 had been recognised for the year ended 31 December 2004 (2003: RMB78,774,000).

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 OR VALUATION					
At 1 January 2004	52,029	5,863	1,376	7,862	67,130
Additions	–	71	288	2,152	2,511
Disposals and write-off	–	(3)	–	–	(3)
Transfer to a subsidiary	–	–	–	(2,864)	(2,864)
Transfer	5,794	68	–	(5,862)	–
At 31 December 2004	57,823	5,999	1,664	1,288	66,774
Comprising:					
At cost	–	5,999	1,664	1,288	8,951
At directors' valuation					
– 31 December 2004	57,823	–	–	–	57,823
	57,823	5,999	1,664	1,288	66,774
DEPRECIATION AND AMORTISATION					
At 1 January 2004	861	886	937	–	2,684
Provided for the year	1,891	511	406	–	2,808
Eliminated on disposals	–	(1)	–	–	(1)
At 31 December 2004	2,752	1,396	1,343	–	5,491
NET BOOK VALUES					
At 31 December 2004	55,071	4,603	321	1,288	61,283
At 31 December 2003	51,168	4,977	439	7,862	64,446

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Certain land and buildings in PRC were revalued by the directors by reference to current market condition and the directors are in the opinion that the net book values of these assets of RMB55,071,000 as at 31 December 2004 are not materially different from the fair value as at 31 December 2004.

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 RMB55 million as at 31 December 2004.

No interest was capitalised in the construction in progress of the Company at the balance sheet date (2003: nil).

As at 31 December 2004, 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 RMB97,480,000 (2003: RMB107,058,000) and RMB55,071,000 (2003: RMB51,168,000).

15. INVESTMENT PROPERTIES

	THE GROUP RMB'000	**THE COMPANY** RMB'000
At 1 January 2003	–	–
Transfer from property, plant and equipment	273,455	180,480
Deficit on revaluation *(Note 7)*	(647)	(427)
At 31 December 2003 and 1 January 2004	272,808	180,053
Surplus on revaluation	3,810	2,515
At 31 December 2004	276,618	182,568

The investment properties were valued at open market value at 30 September 2004 by BMI Appraisals Limited, a firm of independent professional valuers. In the opinion of the directors, the fair value of the investment properties at 31 December 2004 is not materially different from this valuation.

15. INVESTMENT PROPERTIES (Continued)

Out of the surplus on revaluation of RMB3,810,000 and RMB2,515,000 of the Group and the Company, respectively, for the year ended 31 December 2004, RMB647,000 and RMB427,000 were credited to the income statement of the Group and the Company respectively and the remaining amounts of RMB2,737,000 (after the effect of minority interest of RMB426,000) and RMB2,088,000 were credited to investment property revaluation reserve of the Group and the Company, respectively.

All 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 2004 and 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 2004	19,623
Additions	420
At 31 December 2004	20,043
AMORTISATION	
At 1 January 2004	3,382
Provided for the year	2,836
At 31 December 2004	6,218
NET BOOK VALUES	
At 31 December 2004	13,825
At 31 December 2003	16,241

Goodwill is amortised over ten years.

17. INTANGIBLE ASSETS

	Patents	Technology acquired	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2004 and 31 December 2004	47,334	82,748	130,082
AMORTISATION			
At 1 January 2004	7,053	36,242	43,295
Charge for the year	6,893	26,089	32,982
Impairment loss	33,388	20,417	53,805
At 31 December 2004	47,334	82,748	130,082
NET BOOK VALUES			
At 31 December 2004	–	–	–
At 31 December 2003	40,281	46,506	86,787

Patents are amortised over ten years.

Technology acquired is amortised over three years starting from 1 January 2003 and it was amortised over the estimated units to be produced by using this technology before 1 January 2003.

During the year, the directors conducted reviews of the Group's intangible assets and determined that the intangible assets were impaired due to the change in market conditions. Accordingly, impairment losses of approximately RMB53,805,000 had been recognised for the year ended 31 December 2004.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	RMB'000	RMB'000
At cost		
Listed shares in the PRC	**1,218,670**	1,218,670
Unlisted investments in the PRC	**446,415**	464,338
	1,665,085	1,683,008
Market value of the listed shares in the PRC	**6,295,510**	6,783,001

Details of the Company's principal subsidiaries as at 31 December 2004 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 personal computer ("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	61.68%	–	61.68%	Trading of HDD
深圳易拓科技有限公司 ExcelStor Technology (Shenzhen) Limited	PRC#	Registered capital	US$26,600,000	61.68%	–	61.68%	Manufacture of HDD

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
長城計算機軟件與系統有限公司 Great Wall Computer Software and System Incorporation Limited ("GWCSS")	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 HDD and HDD substrates
深圳市開發磁記錄有限公司 Shenzhen Kaifa Magnetic Recording Co., Ltd.	PRC**	Registered capital	RMB224,033,000	43%	42%	66.50%	Production and development of HDD 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 HDD heads and related electronic products
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%	Manufacture 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 private limited companies in the PRC*

\# *Companies incorporated as equity jointly controlled entities*

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost less impairment losses	**–**	–	**212,500**	212,500
Share of net assets	**1,013,160**	643,468	**–**	–
Goodwill on acquisition	**110,021**	72,003	**–**	–
	1,123,181	715,471	**212,500**	212,500
Less: Impairment loss of goodwill on acquisition	**(96,907)**	(72,003)	**–**	–
Amortisation for the year	**(327)**	–	**–**	–
	1,025,947	643,468	**212,500**	212,500

Impairment loss on goodwill on acquisition of associate of approximately RMB96,907,000 and RMB72,003,000 had been made in the financial statements for the year ended 31 December 2004 and 31 December 2003, respectively as in the opinion of directors the goodwill acquired would not bring any future economic value to the Group.

19. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's principal associates as at 31 December 2004 are as follows:

Name of associate	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
北京艾科泰電子有限公司 Beijing Elcoteq Electronics Co., Ltd. (formerly known as "Beijing GKI Electronics Co., Ltd.")	PRC	Registered capital	US$10,000,000	–	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")	PRC	Registered capital	RMB600,000,000	35%	15%	43.73%	Provision of broadband network services
華旭金卡股份有限公司 China Huaxu Golden Card Co., Ltd.	PRC	Registered capital	RMB40,018,552	–	25.60%	14.33%	Manufacture of magnetic and optical card
ExcelStor Group Limited	Cayman Islands	Ordinary shares	US$15,000,000	–	33.33%	18.65%	Trading of HDD
國際商業機器租賃有限公司 IBM Leasing Company Limited	PRC	Registered capital	RMB82,798	–	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")	PRC	Registered capital	RMB66,562,761	–	20%	12.09%	Manufacture of computers
G&W Technologies, Co., Ltd.	Republic of Korea	Ordinary shares	WON50,000,000	–	30%	19.95%	Manufacture of HDD spindle motors

19. INTERESTS IN ASSOCIATES (Continued)

Name of associate	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
昂納光通訊有限公司 O-Net Communications Limited	Cayman Islands	Ordinary shares	US$2,849,269	–	46.8%	26.19%	Trading of fiber optic components and manufacture of fiber optic parts for optical communications networks, integrated parts for optical communications networks and crystal parts for optical communications networks
深圳艾科泰電子有限公司 Shenzhen Elcoteq Electronics Co., Ltd. (formerly known as "Shenzhen GKI Electronics Co., Ltd.")	PRC	Registered capital	RMB99,609,465	–	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.	PRC	Registered capital	US$40,000,000	–	20%	11.64%	Manufacture and sales of magnetic head products
深圳開發貝特科技有限公司 Shenzhen Payton Technology Co., Ltd. ("Payton")	PRC	Registered capital	US$31,999,779	–	40%	22.38%	Manufacture and develop of semiconductors and related components
深圳東紅開發磁盤有限公司 Shenzhen KTM Glass Substrate Co., ltd.	PRC	Registered Capital	US$7,000,000	–	49%	32.59%	Inactive and at set up stage

19. INTERESTS IN ASSOCIATES (Continued)

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 principal associates.

Operating results for year ended 31 December 2004 and 2003:

	IIPC		GWB		Payton 2 July 2004 (date of incorporation) to 31 December
	2004	2003	**2004**	2003	**2004**
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**
Turnover	**46,684,805**	29,058,008	**260,073**	238,318	**6,150**
Depreciation and amortisation	**69,676**	24,103	**106,558**	96,448	**13,554**
Profit (loss) before income tax expense	**2,165,066**	1,862,964	**(186,095)**	(196,747)	**(17,451)**
Income tax expense	**(128,467)**	(349,949)	**(20)**	(3)	**–**
Profit (loss) after income tax expense	**2,036,599**	1,513,015	**(186,115)**	(196,750)	**(17,451)**
Profit (loss) attributable to the Group's equity	**246,306**	182,924	**(81,388)**	(86,039)	**(3,906)**

19. INTERESTS IN ASSOCIATES (Continued)

Financial positions as at 31 December 2004 and 2003:

	IIPC		GWB		Payton
	2004	2003	**2004**	2003	**2004**
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**
Total non-current assets	**197,141**	180,910	**1,478,180**	1,469,085	**311,357**
Total current assets	**11,594,716**	9,487,976	**282,487**	239,397	**561,489**
Total liabilities	**(9,655,380)**	(8,015,431)	**(1,526,187)**	(1,316,262)	**(62,653)**
Shareholders' funds	**2,136,477**	1,653,455	**234,480**	392,220	**810,193**
Shareholders' funds attributable to the Group's equity interests	**258,386**	199,903	**102,538**	171,518	**181,354**
Contingent liabilities	**Nil**	Nil	**Nil**	Nil	**Nil**

20. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Investment securities comprise:		
Unlisted equity investments in the PRC, at cost	**53,347**	48,347
Impairment loss	**(2,897)**	–
	50,450	48,347

Included in unlisted equity investments is an investment of RMB2,897,000 had been fully impaired for the year.

21. INVENTORIES

	THE GROUP 2004 RMB'000	2003 RMB'000
Raw materials	**485,526**	384,690
Work in progress	**42,277**	45,920
Finished goods	**341,406**	444,066
Spare parts and consumables	**5,861**	2,371
	875,070	877,047

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

	THE GROUP 2004 RMB'000	2003 RMB'000
Raw materials	**95,938**	228,512
Work in progress	**18,590**	–
Finished goods	**214,496**	441,564
Spare parts and consumables	**5,311**	–
	334,335	670,076

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	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**1,158,261**	1,877,423
91 – 180 days	**247,362**	54,950
181 – 365 days	**17,368**	50,986
Over 365 days	**–**	683
	1,422,991	1,984,042

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

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**47,805**	105,148
91 – 180 days	**74,735**	17,226
	122,540	122,374

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	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**1,889,270**	2,086,495
91 – 180 days	**172,747**	1,264
181 – 365 days	**20,751**	395
Over 365 days	**7,474**	16,869
	2,090,242	2,105,023

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

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**259,442**	153,642

24. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank and other borrowings				
Secured	**474,844**	546,067	**100,000**	270,000
Unsecured	**403,462**	726,296	**320,000**	350,000
	878,306	1,272,363	**420,000**	620,000
The maturity of bank and other borrowings is as follows:				
On demand or within one year	**878,306**	977,078	**420,000**	620,000
More than one year but not exceeding two years	**–**	295,285	**–**	–
	878,306	1,272,363	**420,000**	620,000
Less: Amounts due within one year shown under current liabilities	**(878,306)**	(977,078)	**(420,000)**	(620,000)
Amounts due after one year	**–**	295,285	**–**	–

The above borrowings bear interest at market rates.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	**1,484**	5,869	**1,450**	5,524
Less: Future finance charges	**(34)**	(345)	**–**	–
Present value of lease obligations	**1,450**	5,524	**1,450**	5,524
Less: Amounts due within one year shown under current liabilities			**(1,450)**	(5,524)
Amounts due after one year			**–**	–

It is the Group's policy to lease certain of its equipment under finance leases. The average lease term is two years (2003: two years).

For the year ended 31 December 2004, the average effective borrowing rate was 10% (2003: 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 2003, balance at 31 December 2003 and 31 December 2004	1,197,742,000	743,870	453,872	1,197,742

27. RESERVE

	Share premium RMB'000	Investment property revaluation reserve RMB'000	Dividend reserve RMB'000	Accumulated profits RMB'000	Total RMB'000 *(Note)*
THE COMPANY					
At 1 January 2003	996,660	–	–	35,932	1,032,592
Net profit for the year	–	–	–	75,786	75,786
At 31 December 2003 and 1 January 2004	996,660	–	–	111,718	1,108,378
Surplus on revaluation of investment properties	–	2,088	–	–	2,088
Deferred tax liability arising on revaluation of investment properties	–	(312)	–	–	(312)
Net profit for the year	–	–	–	62,017	62,017
Proposed final dividend	–	–	50,305	(50,305)	–
At 31 December 2004	996,660	1,776	50,305	123,430	1,172,171

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.

The Company had distributable profits of approximately RMB92,944,000 at 31 December 2004 (2003: Nil) under PRC accounting standards.

28. GOVERNMENT GRANTS

The amounts represent government grants to the Group for the development of communication technology. In 2004, the Group received a government grant of approximately RMB14,401,000 (2003: RMB17,800,000). The amounts will be credited to the income statement upon approval by the relevant authorities for expenses incurred in respect of this technology. This policy has resulted in credit to income in the current year of approximately RMB3,009,000 (2003: RMB2,000,000).

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	Tax losses	Others	Revaluation of investment property	Accelerated tax depreciation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2004	10,322	(4,052)	(4,542)	(97)	–	1,631
(Credit) charge to income for the year	(905)	(38)	3,406	97	43	2,603
Charge to revaluation reserve	–	–	–	474	–	474
At 31 December 2004	9,417	(4,090)	(1,136)	474	43	4,708

At the balance sheet date, the Group had unused tax losses of RMB618 million (2003: RMB577 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB27 million (2003: RMB27 million) tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB591 million (2003: RMB550 million) due to the unpredictability of future profit streams. The unused tax losses will gradually expire from 2005 to 2009.

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 2003	1,487	(1,487)	–	–
(Credit) charge to income for the year	(26)	90	(64)	–
At 31 December 2003 and 1 January 2004	1,461	(1,397)	(64)	–
(Credit) charge to income for the year	(26)	(38)	64	–
Charge to revaluation reserve for the year	–	–	312	312
At 31 December 2004	1,435	(1,435)	312	312

At the balance sheet date, the Company had unused tax losses of RMB223 million (2003: RMB206 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB9.6 million (2003: RMB9.3 million) of tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB213.4 million (2003: RMB196.7 million) due to the unpredictability of future profit streams. The unused tax losses will gradually expire from 2005 to 2008.

30. ACQUISITION OF A SUBSIDIARY

	2004 RMB'000	2003 RMB'000
Net assets acquired:		
Property, plant and equipment	46	1,751
Inventories	–	2,140
Investment securities	–	9,862
Trade and other receivables	322	1,927
Bank balances and cash	4,254	14,444
Trade and other payables	(417)	(1,267)
Minority interests	(1,922)	(8,657)
Less interest acquired in prior years as associate	–	(15,810)
	2,283	4,390
Goodwill	420	13,560
Total consideration	2,703	17,950
Satisfied by		
Cash	2,703	17,950
Net cash inflow (outflow) arising on acquisition:		
Cash consideration	(2,703)	(17,950)
Bank balances and cash acquired	4,254	14,444
	1,551	(3,506)

The subsidiary acquired during the year ended 31 December 2004 contributed approximately RMB9,459,000 to the Group's turnover and RMB869,000 to the Group's profit from operations.

The subsidiary acquired during the year ended 31 December 2003 contributed approximately RMB3,274,000 to the Group's turnover and RMB827,000 to the Group's loss from operations.

31. CAPITAL COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital expenditure in respect of property, plant and equipment:				
– contracted but not provided for in the financial statements	**9,057**	31,445	**249**	1,593
Capital contribution in respect of investments in associates contracted but not provided for in the financial statements	**5,795**	–	**–**	–
	14,852	31,445	**249**	1,593

32. 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	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**10,676**	10,960	**197**	2,045
In the second to fifth year inclusive	**9,775**	16,145	**–**	170
	20,451	27,105	**197**	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.

32. LEASE COMMITMENTS (Continued)

(b) The Group as lessor

Property rental income net of outgoings is disclosed in note 4 and 6 above.

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

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

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**33,409**	25,801	**10,053**	10,448
In the second to fifth year inclusive	**75,293**	54,455	**16,109**	12,534
After five years	**37,613**	48,675	**–**	–
	146,315	128,931	**26,162**	22,982

33. 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	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to financial institutions in respect of banking facilities utilised by:				
subsidiaries	**–**	–	**157,320**	81,500
associates	**820,000**	715,000	**820,000**	690,000
third parties	**304,820**	30,989	**–**	–
	1,124,820	745,989	**977,320**	771,500
Discounted bills with recourse	**–**	95,748	**–**	–

34. PLEDGE OF ASSETS

At the balance sheet date, the Group and the Company had bank deposits amounting to approximately RMB281,485,000 (2003: RMB292,800,000) and RMB223,560,000 (2003: RMB289,800,000), 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 RMB185,039,000 (2003: RMB254,353,000) to banks to secure general banking facilities granted to the Group.

35. 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*

	2004	2003
	RMB'000	RMB'000
Rental income received	**97**	1,382
Purchase of components and parts	–	432
Rental expenses paid	**33**	143
Sales of products	–	35

(b) *Associates*

	2004	2003
	RMB'000	RMB'000
Sales of products	**2,589,465**	2,424,167
Rental income received	**46,572**	37,870
Royalty income received	**47,105**	44,345
Interest income received	**3,280**	–
License fees paid	–	13,243
Purchase of components and parts	**1,843**	6,047
Processing fees paid	–	3,165
Sales of property, plant and equipment	–	349

The above transactions were carried out at market price or, where no market value was available, at cost plus a percentage profit mark-up or terms agreed by relevant parties.

35. 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	
	2004	2003
	RMB'000	RMB'000
Amount due from ultimate holding company	**12**	4
Amounts due from fellow subsidiaries	**12,591**	13,908
Amounts due to fellow subsidiaries	**–**	402

(b) *Associates*

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current portion				
Amount due from an associate	**4,504**	6,505	**–**	–
Current portions				
Amounts due from associates	**785,222**	782,194	**10,856**	20,770
Amount due to an associate	**111,988**	133,467	**–**	4,152

In the opinion of the directors, the amount due from an associate as at 31 December 2004 of RMB4,504,000 (2003: RMB6,505,000) will not be received within the next twelve months. Accordingly, it is classified as non current.

At the balance sheet date, an amount of approximately RMB5,076,000 (2003: Nil) due from an associate is interest bearing at 5.58% per annum. The remaining balances are interest free.

35. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Related party balances (Continued)

(c) Subsidiaries of the Company

	THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Amounts due from subsidiaries	**2,788**	–
Amounts due to subsidiaries	**76**	1,585

Except otherwise stated, all the above balances are non-interest bearing and have no fixed repayment terms.

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

37. POST BALANCE SHEET EVENTS

(1) The Company announced on 14 December 2004 in relation to the agreement entered into on 10 December 2004 between CGC, IBM Products AP Limited and IBM Far East Holdings B.V. pursuant to which CGC agreed to sell its entire equity interest in IIPC. The circular has been dispatched on 18 February 2005 (the "Circular") and the extraordinary general meeting has been held on 6 April 2005. The pro forma gain on disposal of approximately RMB30 million was noted in the Circular as if IIPC had been disposed of on 30 September 2004.

(2) CGC has entered into an agreement on 10 December 2004 with IBM International Holdings B.V. to set up a new Company, International System Technology Company, in which CGC has 20% shareholding. The investment cost and registered capital of this new company is USD7,000,000 (approximately RMB58,000,000) and USD3,000,000 (approximately RMB24,800,000), respectively. No contribution was made by the Group as at 31 December 2004.

(3) After discussions and studies conducted by the Board, it is agreed that the Company 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 approximately RMB56 million.

(4) According to the Board Resolution dated 8 April 2005, CGC and Hunan Computer Co., Ltd. inject additional capital into GWCSS, a subsidiary of the Company, amounting to approximately RMB17,772,000 and RMB49,491,000, respectively. The equity interest of GWCSS attributed to the Group will decrease from 82.54% to 55.77% after that capital injection.