NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. GENERAL

The Company is a sino-foreign joint venture joint stock limited company established in the People's Republic of China (the "PRC"). Its ultimate holding company was China Great Wall Computer Group Company, a state-owned enterprise established in the PRC.

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

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

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interest and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profit on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 as investment securities. Under SSAP 24, the Group's investment securities are carried at cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably carried are measured at cost less impairment.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. This change has had no material effect on the Group's accumulated profits at 1 January 2005.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change has had no material effect on the Group's accumulated profits at 1 January 2005.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 4 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor SSAP were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained earnings (see Note 4 for the financial impact).

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change has had no material effect on the Group's accumulated profits at 1 January 2005.

Interests in associates

In previous periods, in the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associate plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. Under HKAS 28 "Investments in associates", the results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Non-current assets held for sale

In the current period, the Group has applied HKFRS 5 and in accordance to which non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previously carrying amount and fair value less costs to sell.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

For the six months ended 30 June 2005, the effect of the changes in the accounting policies described above was mainly resulted in decrease in amortisation of goodwill and increase in profit for the period of approximately RMB1,402,000 (six months ended 30 June 2004: Nil).

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) RMB'000	Adjustment RMB'000	As at 31 December 2004 (restated) RMB'000	Transfer/ adjustment RMB'000	As at 1 January 2005 (restated) RMB'000
Property, plant and equipment	2,012,215	(112,450)	1,899,765	–	1,899,765
Prepaid lease payments	–	112,450	112,450	–	112,450
Total effects on assets and liabilities	2,012,215	–	2,012,215	–	2,012,215
Accumulated profits	508,431	–	508,431	(25,892)	482,539
Goodwill reserve	(28,155)	–	(28,155)	28,155	–
Investment property revaluation reserve	2,263	–	2,263	(2,263)	–
Total effects on equity	482,539	–	482,539	–	482,539

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

5. BUSINESS SEGMENT INFORMATION

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

	Six months ended 30 June 2005 (unaudited)					
	HDD and related products RMB'000	**PC and PC peripheral products** RMB'000	**Property investment** RMB'000	**Other** RMB'000	**Eliminations*** RMB'000	**Consolidated** RMB'000
TURNOVER						
External sales	5,138,205	2,034,215	13,983	–	–	7,186,403
Inter-segment sales	32,874	–	–	–	(32,874)	–
Total	5,171,079	2,034,215	13,983	–	(32,874)	7,186,403
SEGMENT RESULTS	164,626	47,400	11,561	(7,560)	–	216,027
Unallocated other operating income						11,997
Impairment loss recognised in respect of on goodwill	–	(1,582)	–	–	–	(1,582)
Share of results of associates	(8,297)	93,114	–	(20,751)	–	64,066
Gain on disposal of interest in an associate	–	334,674	–	–	–	334,674
Finance costs						(16,749)
Profit before income tax expense						608,433
Income tax expense						(75,943)
Profit for the period						532,490

5. BUSINESS SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2004 (unaudited)					
	HDD and related products RMB'000	PC and PC peripheral products RMB'000	Property investment RMB'000	Other RMB'000	Eliminations* RMB'000	Consolidated RMB'000
TURNOVER						
External sales	3,728,130	1,158,796	10,197	–	–	4,897,123
Inter-segment sales	774,043	–	–	–	(774,043)	–
Total	4,502,173	1,158,796	10,197	–	(774,043)	4,897,123
SEGMENT RESULTS	137,489	(29,077)	9,497	(9,375)	(552)	107,982
Unallocated other operating income						20,915
Share of results of associates	(10,056)	163,834	–	(45,087)	–	108,691
Gain on disposal of interest in an associate	–	8,240	–	–	–	8,240
Gain on capital contribution from a shareholder of an associate	4,251	4,251	–	19,836	–	28,338
Finance costs						(28,525)
Profit before income tax expense						245,641
Income tax expense						(17,189)
Profit for the period						228,452

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

6. CONSOLIDATED REVENUE/EXPENSE FOR THE PERIOD

	Six months ended 30 June	
	2005	**2004**
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Consolidated profit for the period has been arrived at the following items after charging:		
Amortisation of goodwill (included in administrative expenses)	–	899
Amortisation of intangible assets	–	18,211
Depreciation and amortisation of property, plant and equipment	114,211	135,971
Total depreciation and amortisation	114,211	155,081
Release of prepaid lease payments	1,910	1,910
Share of tax of associates (included in share of results of associates)	12,132	41,800
and after crediting:		
Dividend income from other investments	–	1,650
Interest income	11,997	20,915
Rental income received from associates	30,003	14,590

7. GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

During the period, the Group disposed of its entire interest in International Information Products (Shenzhen) Co., Ltd. ("IIPC"), a former 20% associate of the Group, for a total consideration of approximately RMB361,306,000 after a fair value adjustment of approximately RMB2,860,000 based on the weighted average interest rates of the Group, and resulted in a gain on disposal of approximately RMB334,674,000 (six months ended 30 June 2004: Nil).

8. INCOME TAX EXPENSE

	Six months ended 30 June 2005 RMB'000 (Unaudited)	Six months ended 30 June 2004 RMB'000 (Unaudited)
Current tax:		
PRC	70,906	13,094
Hong Kong	5,037	4,095
	75,943	17,189

Taxation in the PRC is calculated at the rates prevailing in the PRC. Some of the subsidiaries of the Group were approved to be high technology enterprises and income tax is calculated at 15% (six months ended 30 June 2004: 15%) of the estimated assessable profit for the period.

Certain subsidiaries operating in the PRC are entitled to exemptions from PRC income tax for the two years commencing from its first 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% (six months ended 30 June 2004: 17.5%) of the estimated assessable profit for the period.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the period (six months ended 30 June 2004: Nil).

10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the period of RMB310,384,000 (six months ended 30 June 2004: RMB129,521,000) and on 1,197,742,000 shares (six months ended 30 June 2004: 1,197,742,000 shares) in issue during the period.

No diluted earnings per share have been presented because there was no dilutive potential ordinary share in existence during the six months ended 30 June 2005 and 2004.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent an aggregate amount of RMB230,609,000 (six months ended 30 June 2004: RMB55,695,000) on additions to property, plant and equipment.

At 30 June 2005, the directors considered the carrying amount of the Group's leasehold buildings carried at revalued amounts and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

12. INVESTMENT PROPERTIES

At 30 June 2005, the directors considered the carrying amount of the Group's investment properties and estimated that the carrying amounts do not differ significantly from that which would be determined using fair value at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

13. BALANCE OF CONSIDERATION RECEIVABLE ON DISPOSAL OF INTEREST IN AN ASSOCIATE

The amount represents balance of consideration receivable on disposal of the Group's entire interest in IIPC, and is unsecured, non-interest bearing and is repayable by instalment. The amount is receivable as follows:

	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited)
Within one year	242,476	–
In the second year	57,925	–
	300,401	–
Less: Amount receivable within one year included under current assets	(242,476)	–
	57,925	–

14. 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:

	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited)
Within 90 days	1,415,163	1,158,261
91 – 180 days	208,242	247,362
181 – 365 days	201,555	17,368
	1,824,960	1,422,991

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

	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited)
Within 90 days	119,516	47,805
91 – 180 days	–	74,735
	119,516	122,540

15. ASSET CLASSIFIED AS HELD FOR SALE

The Company announced on 22 June 2005 in relation to the agreement entered into on 21 June 2005, pursuant to which the Group agreed to sell its 40% interest in an associate, Shenzhen Payton Technology Co., Ltd. ("Shenzhen Payton"), a sino-foreign equity joint venture company established in Shenzhen, PRC and is principally engaged in manufacturing and sales of magnetic head products. The interest in Shenzhen Payton of approximately RMB323,254,000 at the balance sheet date has been reclassified from interests in associates to an asset classified as held for sale. This transaction has not been completed upto the date of this report.

The net proceeds of disposal are expected to exceed the carrying amount of the interest in an associate and accordingly, no adjustment has been made upon classification of the interest as held for sale.

16. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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

	30.6.2005 RMB'000 (Unaudited)	**31.12.2004** RMB'000 (Audited)
Within 90 days	2,551,516	1,889,270
91 – 180 days	20,386	172,747
181 – 365 days	2,787	20,751
Over 365 days	12,774	7,474
	2,587,463	2,090,242

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

	30.6.2005 RMB'000 (Unaudited)	**31.12.2004** RMB'000 (Audited)
Within 90 days	239,944	259,442

17. CAPITAL COMMITMENTS

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

	30.6.2005 RMB'000 (Unaudited)	**31.12.2004** RMB'000 (Audited)
Capital contribution in respect of investment in associates contracted but not provided for in the financial statements	3,010	5,795
Capital expenditure in respect of property, plant and equipment contracted but not provided for in the financial statements	28,522	9,057
	31,532	14,852

18. CONTINGENT LIABILITIES

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

	30.6.2005	**31.12.2004**
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Guarantees given to financial institutions in respect of banking facilities utilised by:		
– associates	525,000	820,000
– third parties	355,676	304,820

19. RELATED PARTY TRANSACTIONS

(i) Related party transactions

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

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

	Six months ended 30 June	
	2005	**2004**
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of components and parts	598	468
Sales of products	–	919

(b) Associates

	Six months ended 30 June	
	2005	**2004**
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	1,780,964	981,559
Royalty income received	32,445	19,568
Rental income received	30,003	14,590
Processing fees paid	2,764	1,715

19. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Related party balances

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

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

	30.6.2005	**31.12.2004**
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amount due from ultimate holding company	–	12
Amounts due from fellow subsidiaries	8,154	12,591
Amounts due to fellow subsidiaries	137	–

(b) Associates:

	30.6.2005	**31.12.2004**
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Non-current portions		
Amount due from an associate	3,503	4,504
Current portions		
Amounts due from associates	1,033,504	785,222
Amounts due to associates	83,937	111,988

At the balance sheet date, an amount of approximately RMB305,291,000 (2004: RMB5,076,000) due from an associate is interest bearing at 5.58% per annum. The remaining balances are interest free.

All the above balances have no fixed repayment terms.

20. POST BALANCE SHEET EVENTS

According to the Board Resolution dated 8 April 2005, China Great Wall Computer (Shenzhen) Co., Ltd., a subsidiary of the Company, and Hunan Computer Co., Ltd. would inject additional capital into Great Wall Computer Software and System Incorporation Limited ("CWCSS"), another subsidiary of the Company, amounting to approximately RMB17,722,000 and RMB49,491,000, respectively. The equity interest of CWCSS attributed to the Group would decrease from 82.54% to 55.77% after that capital injection. This capital injection was completed subsequently in July 2005.