

CHAIRMAN'S STATEMENT

1. BUSINESS REVIEW

Despite strong competition in the year 2000 in the domestic, as well as the international, markets for PCs and PC peripheral products and HDDs and related products, the Group achieved satisfactory results as a result of the effort and dedication of its staff.

The turnover and net profit of the Group for the year 2000 amounted to RMB6,384,763,000 and RMB230,168,000, representing an increase of 29% and a decrease of 32%, respectively.

PC & PC Peripheral Products

Facing strong competition in the domestic market for PCs and rapid development of the Internet, the Group continued to improve the functions of its PCs. Computers for households and the 2nd Generation Wang Xing series for business were launched. Sales of computers maintained steady growth. As a result, "Golden Great Wall" achieved a higher market ranking. The Group further adjusted and improved its business strategy and after-sale services for the PCs and PC peripheral products. One hundred sales centers for "Golden Great Wall" brand servers were established nationwide. China Great Wall Computer Shenzhen Company Limited ("Great Wall Computer"), a subsidiary of the Company, opened a branch in Guangzhou. This accelerated the pace of R&D for new products (such as network servers, network securities, Video On Demand ("VOD") and broadband network connection) and marketing. Multi-functional high-end monitors and power supply products, such as 17 inch and 19 inch monitors, LCD monitors, Dynafat series monitors, Net series 2000 monitors, network power supplies and export-oriented power supplies, were launched.

In 2000, the Group made major progress on the systematic integration projects in relation to social management networking, including social insurance management systems, industry and commerce administrative systems and revenue audit systems for government departments. The software project for the Ninth Five Year Technology Development progressed well. The Group was the highest ranking distributor of Lotus products in the PRC. The Group launched software products, including CMS and broadband application software products. In addition, the Group obtained an authentication certificate from the State as a Grade A Software Integration Enterprise.

During the year 2000, Great Wall Computer set up a subsidiary, Sowant E-Commerce Co. Ltd., to provide full services, including e-commerce platform infrastructure services, to traditional enterprises. In addition, the 30:70 joint venture with IBM, Beijing GKI Electronics Co. Ltd., performed well. The joint venture company was engaged in R&D, design, assembly, manufacturing and sale of electronic components, computers and electronic products, development of computer related products and after-sale services.

HDD & Related Products

As a result of tight competition in the international market for HDD magnetic heads, the Group experienced a significant decrease in the selling prices that resulted in reducing of net profit of the Group. Following the introduction of self-made automated equipment manufacturing devices for HDD magnetic heads, the productivity and sales of HDD magnetic heads maintained modest growth. The Group was again awarded the “Outstanding Supplier” of the year 2000 by its major customer, MAXTOR CORPORATION.

The Group obtained good results in developing the domestic market for HDDs reducing its sole reliance on the international market and focusing the Company on the development of both markets. HDD product sales did not reach sales targets due to changes in product models.

The pass rate for qualified HDD substrate products increased gradually, and the wastage rate decreased significantly, due to the maturing and improvement of production technology. By meeting international standards, the quality of the products and services earned a good reputation from the customers, thus ensuring consistent growth in sales.

Broadband Network

The Group’s broadband network services rapidly developed its marketing and network infrastructure. This effectively reallocated resources of network equipment providers, Internet service providers, real estate companies, engineering, marketing and operating agencies to the Group. The Group set up companies in five regional districts, as well as two metropolitan net companies, with 140 newly appointed agents. By the end of December, the Group had established business connections with 200 property developers and companies. The number of contractual users reached 8,680,000 with 1,180,000 under construction and 180,000 completed.

Using the 2nd generation of INTERNET 2 technology as a base to construct broadband network, the Group invested in community network construction via Ethernet. At the same time, it strengthened its co-operation with relevant municipal government authorities and rented national backbone network. The Group endeavoured to provide services, such as Internet browser, VOD, e-mail, e-commerce, chat room, on-line games, tele-education, tele-medical services, cultural entertainment and various information services, at competitive prices to customers by connecting customers to the 10M broadband network.

In accordance with today's trend of a high-speed Internet world, the Great Wall Broadband Network Service Company Limited (a subsidiary of the Company) has attempted, and will continue to attempt, to deliver the broadest band width at the lowest cost possible in a manner which takes into account the dense population, and the presence of community structures, in the PRC.

Network Transmission and Add-on Equipment

The Group made good progress in the production of network transmission and add-on equipment (including optical isolators, optical amplifiers, optical receivers and optical transmitters). The variety and application of the Group's optical products were broadened, thus enhancing the Group's production technology. The commercial production of DWDM (Dense Wavelength Division Multiplexer) components commenced following the completion of the R&D process. Meanwhile, the optical switch was put into the trial production stage. In addition, the Group co-operated with ECHELON of the US and became the sole authorised developer for LONWORKS technology in the PRC.

Management and R&D

Two of the Company's principal subsidiaries, Great Wall Computer and Shenzhen Kaifa Technology Co., Ltd. ("Kaifa Technology"), commenced the implementation of the ERP system (Enterprise Resource Plan) – the operation of the ERP system has improved the Group's operational efficiency and management. The Group's National 863 Project – "Research on standardisation of fiber optic amplifiers technology II" and "Research on systematisation and standardisation of optical isolators technology" has been approved by the State Science Commission and National 863 Project Committee and obtained Grade A+ (Grade Excellent). The Group was also recognised by the State Science Commission as "an industrial base for high-technology R&D plan".

2. PROSPECTS IN 2001

Looking ahead, the Group will continue to optimise its product portfolio, to boost technology, and hence profitability, and to increase market share and competitiveness.

The Group will widen its sales network for PCs and PC peripherals and strengthen its R&D on PC functions. Building brand image will help ensure that the Group has a competitive edge in the market. Likewise, the Group will strengthen its new business investments and enhance its broadband based e-commerce applications and services. The Group will also expand its share of the application service market for the sectors of small and medium size enterprises, tax, finance, social insurance, customs and education.

The Group will further expand its interest in the market for HDDs and related products by improving the technology and productivity of its HDD magnetic heads and HDD substrate products. Currently, the Group foresees an upward trend for its HDD products. The Group will strive to become one of the leading companies in the world in this area.

The Group will emphasise the construction of the community broadband network in order to achieve breakthroughs in technology. Its competitive advantages in the IT industry will create a synergy effect for network construction and provision of services that will also benefit other businesses. Dynamic management and technical expertise will complement the Group's operations. The network launch rate, access rate and rate of return will be the Group's performance benchmarks.

The Group will put significant emphasis on the R&D and production of fiber optical products. It will also seek technological support domestically and abroad. The Group will endeavour to be well equipped with components for cable and wireless fiber optical network. Meanwhile, the Group will strengthen its co-operation with domestic and foreign research institutes. This is expected to be a new stream of profit growth.

The Group will investigate the intelligent terminals and cash terminals market for households and communities, both domestically and internationally. At the same time, the pace for R&D and production of network terminals will be accelerated. Currently, the Group is in discussion with a European multinational corporation about the R&D and production of network terminals. If achieved,

this will be a remarkable export of technology from the PRC to Europe and the largest export deal of the Group.

Entry into the World Trade Organisation (“WTO”) by the PRC is expected to bring advantages to the Group. The main business of the Group is directed at overseas markets and much of the Group’s profit is contributed by such business. Therefore, the PRC’s entry into the WTO is not expected to cause any substantial adverse effect to the Group’s primary operations. The Group should benefit from the lowering of costs of, and improved access to, raw materials and the Group’s greater exposure to international management standards. Furthermore, the PRC’s entry into the WTO should increase the sales volume of many of the Group’s products.

The Group will further upgrade its management team, in particular, through the improvement of the managers’ qualifications and the introduction, formulation and perfection of a new incentive scheme in order to create a corporate environment which is conducive to the development of talent.

Information services will be the Group’s core business. By optimising the product portfolio, increasing investment in R&D and implementing strategic reform, namely, by changing from a PC hardware product manufacturer to an Internet business and from producing low value-added products to producing hi-tech products and information services, the Group expects to be able to obtain economies of scale in these industries.

3. ACKNOWLEDGEMENT

On behalf of the board of directors of the Company, I take this opportunity to express my heartfelt thanks to the staff of the Group for their dedication in the past year and to all the shareholders for their support and concern for the Company.

Wang Zhi
Chairman

30 March 2001