

DIRECTOR'S REPORT

The board of directors of the Company (the “Board”) is pleased to present the Director’s Report together with the audited financial statements of the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the development, manufacture, sale and R&D of PCs, PC peripheral products, HDDs, HDD related products, broadband network services, network transmission and add-on products.

The Company also acts as an investment holding company. The principal activities of its principal subsidiaries is set out in note 14 to the financial statements.

SEGMENT INFORMATION

Analysis of the Group’s turnover and contribution to profit from operations for the year ended 31 December 2000 is set out by principal activity and geographical market in note 3 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group’s single largest supplier and the Group’s top five largest suppliers accounted for approximately 20% and 29%, respectively, of the total purchases of the Group for the year ended 31 December 2000. The Group’s single largest customer and the Group’s top five largest consumers accounted for 39% and 57%, respectively, of the total turnover of the Group for the year ended 31 December 2000.

As far as the directors of the Company (the “Directors”) are aware, none of the Directors or any of their associates, within the meaning of the Rules Governing the Listing of the Securities (the “Listing Rules”) on the HKSE, or those shareholders which to the knowledge of the Directors own more than 5% of the share capital of the Company have an interest in any of the five largest customers of the Group for the year ended 31 December 2000.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 27.

The Board proposed a final dividend for the year ended 31 December 2000 of RMB3.00 cents (approximately HK2.80 cents) per share. Such proposed dividend has been accounted for in the financial statements and is subject to its shareholders' approval at the annual general meeting to be held on 6 June 2001 (the "AGM"). The dividend will be payable on 28 June 2001 to shareholders whose names appear on the H Shares Register of Members of the Company before 4:00 p.m. on 4 May 2001. The dates and arrangements for the registration of shareholder rights and dividend payments in respect of holders for State-owned Legal Person Shares will be separately notified.

RESERVES

Movements during the year ended 31 December 2000 in the reserves of the Group and the Company are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years and a summary of the assets and liabilities for the past two years are set out on page 70.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year ended 31 December 2000 in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are as follows:

	As at 31 December 2000	As at 1 January 2000
	Number of shares	Number of shares
State-owned Legal Person Shares	743,870,000	743,870,000
Overseas Listed Foreign Shares (H Shares)	<u>453,872,000</u>	<u>453,872,000</u>
Total	<u><u>1,197,742,000</u></u>	<u><u>1,197,742,000</u></u>

There were no changes in share capital of the Company during the year ended 2000 and the period from 1 January 2001 up to the date of this report.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396) (the “SDIO”) showed that, the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Class of shares	Number of Shares held	Percentage of the total issued share capital
China Great Wall Computer Group Company	State-owned Legal Person shares	743,870,000	62.11%

Save as disclosed above, the Company was not notified of any other persons who had an interest of 10% or more of the issued share capital of the Company as at 31 December 2000.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in notes 22 and 23 to the financial statements.

Interest capitalised by the Group during the year ended 31 December 2000 in respect of construction in progress amounted to RMB19,755,000.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

During the year ended 31 December 2000, the Company did not have any designated deposits with any financing institutions nor had any overdue time deposits.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 December 2000 are set out in notes 14 and 15, respectively, to the financial statements.

USE OF PROCEEDS FROM THE INITIAL H SHARES OFFER

The proceeds from the Initial Public Offer of H Shares, and use of these proceeds in 1999, were disclosed in the results announcement and annual report in 1999. At the beginning of year 2000, the balance of such proceeds was RMB900,190,000 and the proceeds were applied as follows:

1. Invested approximately RMB210,000,000 (approximately HK\$196,000,000) in Great Wall Broadband Network Service Company Limited. The planned use of proceeds in respect of this item was stated in the Company's prospectus dated 27 July 1999 (the "Prospectus") as "remaining proceeds of approximately RMB547,000,000 (HK\$513,000,000) for both general working capital purpose as well as for the investment in setting up a communication network applying satellite technology";
2. Approximately RMB106,000,000 (approximately HK\$100,000,000) was invested for the construction of new factory plant and science research office building. The planned use of proceeds in respect of this item was stated in the Prospectus as "approximately RMB150,000,000 (HK\$141,000,000) to finance the expansion project for the construction of a new production and office facility"; and
3. Injected approximately RMB217,000,000 (approximately HK\$203,000,000) as investment and additional working capital for the HDD production project. The planned use of proceeds in respect of this item was stated in the Prospectus as "approximately RMB100,000,000 (HK\$94,000,000) towards investment in connection with the establishment of production facilities for the production of HDDs for Conner".

As at 31 December 2000, the balance of the proceeds from the Initial Public Offer of H Shares was approximately RMB367,190,000, deposited as short-term deposits with maturities of less than one year, to be used for working capital and unfinished projects for the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2000, the Company or any of its subsidiaries did not purchase, redeem or sell any of the Company's listed securities.

DIRECTORS

During the year ended 31 December 2000 and up to the date of this report, the Directors and their biography are as follows:

Executive Directors

Mr. Wang Zhi, aged 58, is chairman and president of the Company. He joined the Great Wall Group in 1985, and was one of its founders. Before joining the Great Wall Group, Mr. Wang was a deputy director of the Computer Bureau under the Ministry of Electronics Industry. He graduated from Harbin Military Academy of Science with a bachelor degree in wireless communication. Mr. Wang has over 35 years' experience in the information technology industry and now he also is the honorary president of China Computer Industry Association.

Mr. Wang Zhirong, aged 60, is executive director and vice president of the Company. He joined the Great Wall Group in 1986. Prior to joining the Great Wall Group, Mr. Wang was manager at the Computer Bureau of the Ministry of Electronics Industry. He graduated from China Electronics Technology University with a bachelor degree in computer science. He holds the title of senior engineer and, as he is an expert, Mr. Wang has been granted a special allowance from the State, Mr. Wang has over 36 years' experience in the information technology industry.

Mr. Lu Ming, aged 50, is executive director and vice president of the Company. He is responsible for production technology development and marketing activities of the Company. He joined the Great Wall Group in 1986. Mr. Lu graduated from the Chinese Academy of Science with a master degree in computer science and completed post-graduate studies at the High Energy Physics Research Institute in Hamburg, Germany. Mr. Lu has over 20 years' experience in the information technology industry.

Mr. Tam Man Chi, aged 52, is executive director and vice president of the Company. He is responsible for the Company's marketing strategy and technology development. Mr. Tam has 32 years' management experience of the international electronics industry.

Ms. Huang Rongfang, aged 55, is executive director of the Company. Ms. Huang graduated from Beijing University and holds the title of senior accountant. Before joining the Great Wall Group, she was the deputy chief officer of the Finance Bureau of China Electronic Industry General Company and the chief financial officer of CEC. Ms. Huang has over 32 years' experience in the information technology.

Independent Non-executive Directors

Mr. Li Yanda, aged 63, and holds a bachelor degree in automated control systems. Mr. Li is Dean of the School of Information Technology at Qinghua University, PRC, and also is a member of the China Academy of Science, and a member of the Academic Degree Committee of the State Council.

Mr. Chang Zhenming, aged 44, he is the chairman and deputy general manager of CITIC Securities Co., Ltd. He holds a bachelor degree in Japanese from the Beijing No. 2 Foreign Language Institute and an MBA degree from the New York Insurance Institute.

Mr. Li Xiaoru, aged 43. He is the managing director of Hong Kong Construction (Holdings) Ltd. Mr. Li holds a Juris Doctor degree from New York University and a bachelor degree in English literature from Columbia University. Mr. Li has many years' experience in practicing law in the U.S. and Hong Kong. Mr. Li is qualified to practice law in the State of California U.S. and in the PRC.

SUPERVISORS

Ms. Wu Aiping, aged 44, is supervisor of the Company. She is the manager of the finance department of the Great Wall Group and is a director of Hunan Computer Company Limited, an associated company of the Great Wall Group. She graduated from Hangzhou Electronics Industry Institute majoring in finance and accounting. Ms. Wu joined the Great Wall Group in 1986.

Mr. Guan Zhizhan, aged 56, is supervisor of the Company. He joined the Great Wall Group in 1993 as financial controller of Kaifa Technology. He graduated from Hangzhou Wireless Industry Management Institute in 1965. Mr. Guan has over 36 years' experience in accounting and finance.

Mr. Di Xiaofeng, aged 39, is supervisor of the Company. Mr. Di has been chairman of the supervisory committee of Shanghai Yongsheng Company Limited since January 1999. He graduated from the Research Institute of the China Academy of Social Science with a master degree in law and is a qualified lawyer in the PRC.

The Directors, the independent non-executive directors and the supervisors of the Company serve a term of 3 years from the date of their respective elections. Upon the expiry of his/her term of office, a director, an independent non-executive director and a supervisor may be re-elected to serve consecutive terms.

COMPANY SECRETARY

Ms. Chen Yanming, aged 38, is holder of a MBA degree from Murdoch University, Perth, Australia. Joining the Great Wall Group in 1993, she is now the secretary of the Board and Administration Director of the Company. She is also currently the company secretary and the director of the secretariat of Kaifa Technology. She holds a “Certificate of Board Secretary Training” jointly issued by the Hong Kong Secretary Society and Shenzhen Stock Exchange in November 1997. Ms. Chen has 7 years’ experience in business administration.

SENIOR MANAGEMENT

Ms. Zeng Yanming, aged 54, is general manager of the business development of the Company. She also heads the technology department, quality department, asset management department and marketing department of the Great Wall Group. She joined the Great Wall Group in 1986. Ms. Zeng graduated from the Beijing Postal and Telecommunication College with a bachelor degree in radio engineering.

Mr. Sam Leung, aged 48, is general manager of the production department of the Company. Mr. Leung graduated from Stanford University with a master degree in electronic engineering in 1975 and was a lecturer at the Hong Kong Polytechnic University (Department of Electronic Engineering).

DIRECTORS’ SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into, or existed of any time, during the year ended 31 December 2000.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 25 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries, its holding company or fellow subsidiaries was a party and in which a Director or a supervisor of the Company (the "Supervisor") had a material interest, whether directly or indirectly, subsisted at the end of or at any time during, the year ended 31 December 2000.

THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS

During the year ended 31 December 2000, the Company did not grant any rights to any Directors or Supervisors and their spouses or children under 18 years of age to subscribe for equity interests in the Company. The interests of the Directors and Supervisors in the shares of the Company or its associated corporation are set out in the section headed "Directors' and Supervisors' Interests in Shares" below.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2000, the interests of the Directors and Supervisors in the shares of the associated corporations of the Company were as follows:

1. Personal Interests

Name of Director	Number of Shares held	Approximate percentage of total issued share capital
Wang Zhi	95,400 employee shares of Great Wall Computer	0.02%
	214,207 employee shares of Kaifa Technology	0.03%
Wang Zhirong	63,600 employee shares of Great Wall Computer	0.01%
	35,699 employee shares of Kaifa Technology	0.005%
Lu Ming	63,600 employee shares of Great Wall Computer	0.01%
Tam Man Chi	714,025 employee shares of Kaifa Technology	0.097%

Name of Director	Number of Shares held	Approximate percentage of total issued share capital
Huang Rongfang	63,600 employee shares of Great Wall Computer	0.01%
	278,512 assigned Legal Person Shares of Kaifa Technology	0.037%

2. Corporate Interests

Name of director	Number of shares held	Approximate percentage
Tam Man Chi	68,952,000 Legal Person Shares of Kaifa Technology (Note 1)	9.4%
	44,988,000 H Shares (Note 2)	3.76%

Notes:

1. These shares are held by Broaddata (H.K.) Limited, a wholly-owned subsidiary of High Expectations Investments Limited ("High Expectations"), in which Mr. Tam Man Chi is interested in 80.73% of the issued share capital.
2. These shares are held by High Expectations in which Mr. Tam Man Chi holds 80.73% of the issued share capital.

Save as disclosed above, as at 31 December 2000, none of the Directors or Supervisors had any interests in any securities of the Company or any of its associated corporations, within the meaning of the SDIO as recorded in the registrar kept by the Company under Section 29 of the SDIO or otherwise notified to the Company and the HKSE to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals of the Company are set out in note 8 to the financial statements.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions:

(1) With the ultimate holding company and fellow subsidiaries:

Name of party	Nature of transactions	Amount RMB'000
China Great Wall Computer Beijing Development Company	Sales of products	1,709
China Great Wall Computer Shenzhen Company	Sales of products	58,255
Great Wall Group	Interest payment	845

(2) With associates:

Name of party	Nature of transactions	Amount RMB'000
International Information Products (Shenzhen) Company Limited	Purchase of raw materials	6,555
	Processing fee charge	10,722
	Rental income	7,271
Shenzhen GKI Electronics Company Limited	Rental income	4,774

(3) With other related parties:

Name of party	Nature of transactions	Amount RMB'000
Chengdu Lixiang Information Co., Ltd.	Purchase of parts	6,868

The independent non-executive directors of the Company confirm that the transactions were in the ordinary course of business of the Group and the agreement governing such transactions was entered into under normal commercial terms.

SINO-FOREIGN JOINT VENTURE JOINT STOCK LIMITED COMPANY

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 PRC on 4 September 2000. Having completed all the registration procedures required for this change, the Company obtained a business certificate on 22 December 2000 as a sino-foreign joint venture joint stock limited company. Such status enables the Company to enjoy the favourable policies established by the PRC government for sino-foreign enterprises.

IMPORTANT ISSUES

1. “Notice of Issues of Financial Disposal in Relation to Housing System of Enterprise Reformation” (Document serial No.: CAI QI [2000] No.: 295) issued by the ministry of Finance

The Company and its subsidiaries incorporated in the PRC have complied with the requirements on housing reformation regulated by the State Council and local government. According to the relevant laws and regulations of the PRC (other than those companies incorporated outside of the PRC), the Group has to contribute, in respect of qualified staff, to the housing reserve fund and in the year 2000 its contribution amounted to RMB9,200,000. Other than this contribution, the Group has no other obligation.

2. New issue of A Shares by the subsidiaries of the Company

During the year ended 31 December 2000, Great Wall Computer implemented a share placement scheme approved at the annual general meeting on 12 March 1999 of Great Wall Computer and placed shares with the shareholders of Great Wall Computer in the proportion of 10:3 at the price of RMB12 per share. The 17,100,000 shares placed to public shareholders commenced trading on the Shenzhen Stock Exchange on 16 March 2000.

Kaifa Technology is considering the possibility of placing 60,174,630 shares to the public shareholders of Kaifa Technology in the proportion of 10:3 in the year 2001. A definitive placement proposal will be submitted to the relevant government authorities for their approval if, and when, the resolution to place a new issue of A Shares on the Shenzhen Stock Exchange is passed at the forthcoming annual general meeting of Kaifa Technology.

3. Material litigation and arbitration

On 17 July 2000 the Great Wall Computer brought an action against Sichuan Yintong Computer System Co., Ltd. (四川銀通電腦系統有限責任公司) (the

“1st defendant”), Chengdu Commercial Bank (成都市商業銀行) (the “2nd defendant”) and Sichuan Liquidation Team of Leading Group of Closing Chengdu Huitong City Cooperation Bank (四川省撤銷成都滙通城市合作銀行領導小組清算組) (the “3rd defendant”) to the People’s High Court of Sichuan Province (四川省高級人民法院), in relation to the dispute of debts and notes. The Great Wall Computer withdrew an action against the 3rd defendant after the close of hearing. A judgment was passed down by the People’s High Court of Sichuan Province (四川省高級人民法院). Ref: (2000) Chuan Jing Chu Zi Document No. 17 「(2000) 川經初字第17號」. The judgement found for the Great Wall Computer and that both the 1st and 2nd defendant shall pay for the Great Wall Computer in total RMB 33,630,650 plus interests. The 2nd defendant appealed against the judgment to the The Supreme People’s Court of the People’s Republic of China (最高人民法院). The hearing is in process.

Save as disclosed above, the Group was not involved in any material litigation and arbitration during the year 2000.

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFIT SCHEMES FOR EMPLOYEES

Details of the retirement benefit schemes for employees of the Group are set out in notes 2 and 6 to the financial statements.

AUDIT COMMITTEE

In compliance with the additional requirements of HKSE in its Code of Best Practice, an audit committee of the Company (the “Audit Committee”) was established in December 1999. There are three members in the Audit Committee, namely Wang Zhi, Li Yanda and Chang Zhenming. By reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants, the principal duties of the Audit Committee include the review of the Company’s financial reporting process, internal controls and the results of the Group. During the year ended 31 December 2000, the Audit Committee held two meetings and reviewed and commented on the Company’s draft annual and interim financial reports.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the HKSE.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 33 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as international auditors of the Company since its incorporation.

A resolution will be submitted at the AGM to re-appoint them as auditors of the Company.

By order of the Board
Wang Zhi
Chairman

Shenzhen, PRC
30 March 2001