

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

## 1. GENERAL

The Company was established in the People's Republic of China ("PRC") as a joint stock limited 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 stated-owned enterprise established in the PRC.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 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 products including hardware and software products. The Company also acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 14.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities, and 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.

Where the results of the year or the net assets in the financial statements of the PRC subsidiaries, which are prepared under PRC accounting standards, are materially different from that prepared under HKGAAP, adjustments are made to bring the amounts reported by the PRC subsidiaries into line with HKGAAP for the purposes of consolidation.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

## **Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets over the purchase consideration at the date of acquisition of a subsidiary, is credited to reserves.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On the disposal of an investment in 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.

## **Subsidiary**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## **Associate**

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of an associate are accounted for by the Company on the basis of dividends received and receivable. In the Company's balance sheet, investment in an associate is stated at cost, as reduced by any decline in value of the associate that is other than temporary.

## **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as held-to-maturity securities, investment securities and other investments.

Debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect the irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

### **Property, plant and equipment**

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. 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 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.

Construction in progress represents buildings, machinery and projects under construction or installation and is stated at cost. 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 when they are capable of producing saleable output on a commercial basis.

Depreciation and amortisation are provided to write off the cost or valuation 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:

Land and buildings	Over the term of the lease
Land use rights	Over the term of the land use rights
Plant, machinery and equipment	2 to 11 years
Motor vehicles	5 to 6 years

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into productive use.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## **Inventories**

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Spare parts and consumables are stated at the lower of cost, determined on a weighted average basis, and replacement cost.

## **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

## **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 applicable rates of exchange quoted by the People’s Bank of China (“PBOC”) prevailing at 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 in effect at the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of subsidiaries which are denominated in currencies other than RMB are translated at the rates ruling on the balance sheet date. Exchange differences arising from such translation are dealt with in reserves.

## **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed to the customers.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Technical service income is recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

### **Retirement benefit schemes**

The retirement benefit costs charged to the income statement represents the Group's contribution payable in respect of the current year to the retirement funds scheme managed by local social security bureau in accordance with PRC government regulations and the defined contribution scheme of a subsidiary in Hong Kong.

### **Research and development cost**

Research costs are recognised as an expense 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 5 years.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 an expense in the period in which they are incurred.

## Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## 3. SEGMENT INFORMATION

The Group's turnover and contribution to profit from operations for the year 31 December 2000, analysed by principal activity and geographical market, are as follows:

### By principal activity

	2000		1999	
	Turnover	Contribution to profit from operations	Turnover	Contribution to profit from operations
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of goods	6,369,608	127,208	4,937,804	442,008
Technical services income	15,155	9,353	13,670	7,210
	<u>6,384,763</u>	<u>136,561</u>	<u>4,951,474</u>	<u>449,218</u>

### By geographical market

	Turnover	
	2000	1999
	RMB'000	RMB'000
PRC	2,169,529	990,037
Asia Pacific (excluding PRC)	2,940,962	2,426,126
North America	1,185,272	1,485,208
Others	89,000	50,103
	<u>6,384,763</u>	<u>4,951,474</u>

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.



#### 4. OTHER REVENUE

Included in other revenue are as follows:

	2000 RMB'000	1999 RMB'000
Dividend income from other investments	21,660	19,200
Interest income	66,832	62,622
Rental income, net of outgoings of RMB20,897,000 (1999: RMB16,583,000)	19,623	26,419
Specific provision for doubtful debt written back	70,923	–
Unrealised holding gain on other investments	–	26,458
	<u>          </u>	<u>          </u>

#### 5. PROFIT FROM OPERATIONS

	2000 RMB'000	1999 RMB'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	3,680	2,730
Bad debts written off	7,545	1,998
Deficit on revaluation of land and buildings	–	9,462
Depreciation and amortisation	150,437	150,042
Inventories written off	–	2,495
Loss on disposal and write off of property, plant and equipment	16,779	6,466
Net foreign exchange losses	2,554	3,757
Operating lease rentals in respect of land and buildings	7,256	8,736
Research and development expenses	17,547	17,915
Staff costs (including retirement benefit costs and directors' remuneration)	279,580	284,250
	<u>          </u>	<u>          </u>

## 6. RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the income statement represent contributions payable by the Group to the retirement scheme and amounted to RMB6,612,000 (1999: RMB8,368,000), net of forfeited contribution of RMB531,000 (1999: RMB102,000).

There were no forfeited contributions available at 31 December 2000 to reduce future contributions.

## 7. FINANCE COSTS

	2000 RMB'000	1999 RMB'000
Interest on:		
Bank and other borrowings wholly repayable within five years	87,194	99,601
Amount due to ultimate holding company	845	–
	<u>88,039</u>	<u>99,601</u>
Less: Amount capitalised in construction in progress	(19,755)	–
	<u>68,284</u>	<u>99,601</u>

The amount capitalised during the year arose on the Group's borrowings and is calculated by applying a capitalisation rate of 6.53% to expenditure on qualifying assets.

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

	2000 RMB'000	1999 RMB'000
Fees	800	400
Salaries and other benefits	6,310	5,268
Performance related incentive payments	–	2,694
Contributions to retirement benefits schemes	205	205
	<u>7,315</u>	<u>8,567</u>

Directors' fees paid to independent non-executive directors for the year ended 31 December 2000 amounted to RMB300,000 (1999: RMB150,000).

The emoluments of the directors were within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	6	6
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	1	1
	<u>8</u>	<u>8</u>

### (b) Supervisors' remuneration

	2000 RMB'000	1999 RMB'000
Fees	150	90
Salaries and other benefits	240	240
Performance related incentive payments	30	30
Contributions to retirement benefits schemes	6	6
	<u>426</u>	<u>366</u>

The emoluments of the supervisors were within the following band:

	<b>Number of supervisors</b>	
	<b>2000</b>	<b>1999</b>
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

**(c) Employees' emoluments**

The five highest paid individuals of the Group for the year ended 31 December 2000 included one director (1999: one director) of the Company and details of whose emoluments are disclosed in (a) above.

The emoluments of the remaining individuals were as follows:

	<b>2000</b>	<b>1999</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Salaries and other benefits	<b>6,184</b>	7,298
Performance related incentive payments	<b>2,408</b>	3,018
Contributions to retirement benefits schemes	<u>337</u>	<u>321</u>
	<u><b>8,929</b></u>	<u>10,637</u>

The emoluments of the remaining individuals were within the following bands:

	<b>Number of employees</b>	
	<b>2000</b>	<b>1999</b>
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,500,001 to HK\$3,000,000	<b>3</b>	—
HK\$3,000,001 to HK\$3,500,000	<u>—</u>	<u>2</u>
	<u><b>4</b></u>	<u>4</u>

## 9. TAXATION

	2000 RMB'000	1999 RMB'000
The taxation charge comprises:		
Current year		
PRC	13,427	27,380
Hong Kong	5,550	2,710
Underprovision in prior years in Hong Kong	2,210	–
	<hr/>	<hr/>
	21,187	30,090
Deferred taxation	–	(40,951)
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	21,187	(10,861)
Share of taxation of associates	17,563	13,499
	<hr/>	<hr/>
	<b>38,750</b>	<b>2,638</b>
	<hr/>	<hr/>

PRC income tax is calculated at tax rates ranging from 7.5% to 15% of taxable income applicable to the Company, certain of its subsidiaries and associates.

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Details of the deferred taxation are set out in note 24.

## 10. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of RMB230,168,000 (1999: RMB340,236,000), a profit of RMB11,648,000 (1999: a profit of RMB95,995,000) has been dealt with in the financial statements of the Company.

## 11. DIVIDEND

	2000 RMB'000	1999 RMB'000
Final dividend, proposed – RMB3.00 cents (1999: RMB3.15 cents) per share	<u>35,932</u>	<u>37,729</u>

The final dividend has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of approximately RMB230,168,000 (1999: RMB340,236,000) and on 1,197,742,000 shares (1999: weighted average number of 930,393,000 shares) in issue during the year.

# 13. PROPERTY, PLANT AND EQUIPMENT

## THE GROUP

	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	Construction in progress RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST OR VALUATION							
At 1 January 2000	15,410	691,175	–	243,066	972,242	19,010	1,940,903
Additions	–	1,783	–	478,620	183,495	2,344	666,242
Disposals and write off	(2,155)	–	–	(10,675)	(26,429)	(1,912)	(41,171)
Transfer	–	–	145,614	(163,025)	17,411	–	–
	<u>13,255</u>	<u>692,958</u>	<u>145,614</u>	<u>547,986</u>	<u>1,146,719</u>	<u>19,442</u>	<u>2,565,974</u>
At 31 December 2000							
Comprising:							
At cost	–	1,783	145,614	547,986	1,146,719	19,442	1,861,544
At valuation – 1999	<u>13,255</u>	<u>691,175</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>704,430</u>
	<u>13,255</u>	<u>692,958</u>	<u>145,614</u>	<u>547,986</u>	<u>1,146,719</u>	<u>19,442</u>	<u>2,565,974</u>
DEPRECIATION AND AMORTISATION							
At 1 January 2000	1,191	12,189	–	–	318,147	10,451	341,978
Provided for the year	1,385	17,720	3,345	–	125,839	2,148	150,437
Eliminated on disposals and write off	<u>(355)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(17,471)</u>	<u>(477)</u>	<u>(18,303)</u>
At 31 December 2000	<u>2,221</u>	<u>29,909</u>	<u>3,345</u>	<u>–</u>	<u>426,515</u>	<u>12,122</u>	<u>474,112</u>
NET BOOK VALUES							
At 31 December 2000	<u>11,034</u>	<u>663,049</u>	<u>142,269</u>	<u>547,986</u>	<u>720,204</u>	<u>7,320</u>	<u>2,091,862</u>
At 31 December 1999	<u>14,219</u>	<u>678,986</u>	<u>–</u>	<u>243,066</u>	<u>654,095</u>	<u>8,559</u>	<u>1,598,925</u>

Land and buildings in Hong Kong and certain land and buildings in the PRC were revalued on an open market value and/or depreciated replacement cost basis by Vigers Hong Kong Limited, independent valuers at 30 April 1999. In the opinion of the directors, the fair value of the land and building at 31 December 2000 is not materially different from this valuation.

If land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amorisation at approximately RMB687 million (1999: RMB703 million).

Assets carried at a cost of approximately RMB188 million (1999: RMB188 million) and accumulated depreciation and amortisation of RMB9 million (1999: RMB4 million) are held for rental purpose under operating leases.

Included in construction in progress of the Group is interest capatilised of approximately RMB19,755,000 (1999: Nil).

## THE COMPANY

	<b>Construction in progress RMB'000</b>	<b>Plant, machinery and equipment RMB'000</b>	<b>Motor vehicles RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>				
At 1 January 2000	30,355	792	202	31,349
Additions	<u>105,611</u>	<u>56,876</u>	<u>410</u>	<u>162,897</u>
At 31 December 2000	<u>135,966</u>	<u>57,668</u>	<u>612</u>	<u>194,246</u>
<b>DEPRECIATION</b>				
At 1 January 2000	–	69	26	95
Provided for the year	<u>–</u>	<u>2,371</u>	<u>62</u>	<u>2,433</u>
At 31 December 2000	<u>–</u>	<u>2,440</u>	<u>88</u>	<u>2,528</u>
<b>NET BOOK VALUES</b>				
At 31 December 2000	<u>135,966</u>	<u>55,228</u>	<u>524</u>	<u>191,718</u>
At 31 December 1999	<u>30,355</u>	<u>723</u>	<u>176</u>	<u>31,254</u>

No interest has been capitalised in construction in progress of the Company.



## 14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	RMB'000	RMB'000
At cost:		
Shares listed in the PRC	1,218,670	1,218,670
Unlisted investments in the PRC	328,632	118,632
	<u>1,547,302</u>	<u>1,337,302</u>
Market value of listed shares	<u>21,296,317</u>	<u>15,260,153</u>

Details of the Company's principal subsidiaries as at 31 December 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by		Equity interest attributable to the Group	Principal activities
			the Company	subsidiaries	%	
Beijing Tianke Information Networking System Company Limited	PRC	RMB8,300,000	–	80	44.77	Not yet commenced business
Beijing Xin Ming Optoelectronic Technology Co., Ltd.* ("Beijing Xin Ming")	PRC	US\$600,000	–	100	28.54	Manufacturing and trading of photographic products
China Great Wall Computer (Shenzhen) Co., Ltd.**	PRC	RMB458,491,500	60.47	–	60.47	Manufacture of micro-computer

Name of subsidiary	Place of incorporation/ establishment and operation	Issued share capital/ registered capital	Percentage of issued share capital/ registered capital held by		Equity interest attributable to the Group %	Principal activities
			the Company %	subsidiaries %		
Great Wall Broadband Network Service Co., Ltd *** ("Great Wall Broadband")	PRC	RMB300,000,000	70	30	87.46	Not yet commenced business
Great Wall Computer Software and System Incorporation Limited	PRC	RMB33,000,000	–	95	57.45	Development of software
Kaifa Technology (H.K.) Limited	Hong Kong	US\$500,000	–	100	55.96	Trading of hard disk drive heads and hard disk drive substrates
Shenzhen Kaifa Magnetic Recording Co., Ltd.	PRC	RMB224,033,000	51	49	78.42	Production and development of hard disk drive substrates
Shenzhen Kaifa Technology Co., Ltd.** ("Shenzhen Kaifa")	PRC	RMB732,932,000	55.96	–	55.96	Production of hard drive heads
Sowant E-commerce Co., Ltd.	PRC	RMB50,000,000	–	90	53.97	Provision of e-commerce business
Xin Ming Technology (H.K.) Limited* ("Xin Ming")	Hong Kong	HK\$30,000,000	–	51	28.54	Investment holding

- \* On 22 January 1999, Shenzhen Kaifa entered into a joint venture agreement with independent third parties (the “Third Parties”) relating to the purchase of Beijing Xin Ming by Shenzhen Kaifa. Pursuant to the said agreement, Shenzhen Kaifa and the Third Parties will own 51% and 49% respectively of the issued share capital of Xing Ming which in turn owns the 100% equity interest of Beijing Xin Ming upon the completion of the said agreement. As at 31 December 2000, Shenzhen Kaifa had fully contributed its capital injection of HK\$30,000,000 to Xin Ming while the contribution of capital fund from the Third Parties is still subject to completion.
- \*\* Subsidiary with its A shares listed on the Shenzhen Stock Exchange in the PRC.
- \*\*\* At 31 December 2000, Great Wall Broadband and certain of its subsidiaries incurred in aggregate approximately RMB193 million for the construction of network infrastructure for providing internet services in the PRC. At 31 December 2000, certain subsidiaries of Great Wall Broadband already obtained the licence (the “Licence”) from the Information Industry Ministry that allows these subsidiaries to provide telecom and information service business in the PRC and certain of its subsidiaries are in the processing of obtaining the Licence.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets and liabilities 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 loan capital outstanding at the end of the year or at any time during the year.

## 15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investment, at cost	—	—	20,281	20,281
Share of net assets	370,188	287,207	—	—
	<u>370,188</u>	<u>287,207</u>	<u>20,281</u>	<u>20,281</u>

Details of the Group's principal associates as at 31 December 2000 are as follows:

Name of entity	Place of establishment and operation	Percentage of registered capital held by the Company indirectly %	Equity interest attributable to the Group %	Principal activities
Beijing GKI Electronics Company Ltd.*	PRC	30	18.14	Manufacture of computer
International Information Products (Shenzhen) Co., Ltd.* ("IIPC")	PRC	30	18.14	Manufacture of computer
Shenzhen GKI Electronics Co., Ltd.* ("GKI")	PRC	30	18.14	Manufacture of motherboard
Hua Xu Gold Card Co., Ltd.*	PRC	25.60	14.33	Manufacturing of magnetic and optical card

\* Not audited by Messrs. Deloitte Touche Tohmatsu

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net 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 audited financial statements, which are prepared under International Accounting Standards and are not materially different from that prepared under HKGAAP, of the Group's significant associates.

Operating results for the years ended 31 December 2000 and 1999:

	IIPC		GKI	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>7,224,048</u>	<u>4,621,467</u>	<u>1,963,778</u>	<u>2,031,873</u>
Depreciation	<u>10,237</u>	<u>4,915</u>	<u>30,409</u>	<u>21,681</u>
Profit from ordinary activities				
before taxation	734,299	598,990	36,529	94,377
Taxation	<u>(55,520)</u>	<u>(37,967)</u>	<u>(3,026)</u>	<u>(7,029)</u>
Profit from ordinary activities				
after taxation	<u>678,779</u>	<u>561,023</u>	<u>33,503</u>	<u>87,348</u>
Profit attributable to the Group	<u>203,634</u>	<u>168,307</u>	<u>10,051</u>	<u>26,204</u>

Financial positions as at 31 December 2000 and 1999:

	IIPC		GKI	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	89,878	37,069	119,397	109,249
Total current assets	2,184,546	1,642,988	505,144	437,897
Total liabilities	<u>(1,467,305)</u>	<u>(1,043,609)</u>	<u>(440,244)</u>	<u>(337,552)</u>
Shareholders' funds	<u>807,119</u>	<u>636,448</u>	<u>184,297</u>	<u>209,594</u>
Shareholders' funds attributable				
to the Group	<u>242,136</u>	<u>190,934</u>	<u>55,289</u>	<u>62,878</u>
Contingent liabilities as				
at 31 December	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

## 16. INVESTMENTS IN SECURITIES

### (i) Non-current investments

	THE GROUP	
	2000 RMB'000	1999 RMB'000
Other investments		
– Unlisted investments in PRC	<u>128,657</u>	<u>107,126</u>

In the opinion of the directors, the fair values of the other investments are not material different from their carrying values.

### (ii) Current investments

	THE GROUP	
	2000 RMB'000	1999 RMB'000
Held-to-maturity debt securities in the PRC	<u>–</u>	<u>39,053</u>
Market value	<u>–</u>	<u>39,302</u>

Held-to-maturity debt securities represent an investment in quoted zero-coupon government bonds in the PRC with a maturity in June 2000.

## 17. INVENTORIES

	THE GROUP		THE COMPANY	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Raw materials	341,916	321,254	17,501	–
Work in progress	98,774	59,917	–	–
Finished goods	369,106	294,202	1,984	9,998
Spare parts and consumables	<u>3,426</u>	<u>6,474</u>	<u>5</u>	<u>–</u>
	<u>813,222</u>	<u>681,847</u>	<u>19,490</u>	<u>9,998</u>

Included in the inventories of the Group above are raw materials of approximately RMB21 million (1999: RMB46 million) and finished goods of approximately RMB260 million (1999: RMB57 million) carried at net realisable value.

## 18. TRADE AND OTHER RECEIVABLES

An aged analysis of trade and other receivables is as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	<b>1,427,904</b>	877,050	<b>77,358</b>	3,447
91 – 180 days	<b>111,113</b>	17,100	<b>3,244</b>	–
181 – 365 days	<b>94,736</b>	98,100	<b>1</b>	–
Over 365 days	<b>69,291</b>	116,749	–	–
	<b><u>1,703,044</u></b>	<b><u>1,108,999</u></b>	<b><u>80,603</u></b>	<b><u>3,447</u></b>

The Group and the Company grant an average credit period of 90 days to its trade customers.

Included in trade and other receivables is an amount of approximately RMB33.6 million which is owed by 四川銀通電腦系統有限責任公司 (“四川銀通”) and guaranteed by 成都市商業銀行. During the year, 四川銀通 and 成都市商業銀行 refused to honour its obligations and the Group took legal proceedings against 四川銀通 and 成都市商業銀行. Even the Group received judgement in favour of the Group from the 四川省高級人民法院 (民事判決書(2000)川經初字第17號) in October 2000, 成都市商業銀行 contested the case. The Group's lawyers have advised that they do not consider that the Group will lose this case. No provision for doubtful debt in respect of the RMB33.6 million receivable has been made in the financial statements as, in the opinion of the directors, there will not be any significant recoverability problem on this amount.

## 19. TRADE AND OTHER PAYABLES

An aged analysis of trade and other payables is as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	<b>751,111</b>	594,837	<b>59,184</b>	4,880
91 – 180 days	<b>43,093</b>	17,096	<b>34</b>	–
181 – 365 days	<b>117,451</b>	75,541	<b>78,285</b>	–
Over 365 days	<b>55,721</b>	44,443	<b>18</b>	–
	<b><u>967,376</u></b>	<b><u>731,917</u></b>	<b><u>137,521</u></b>	<b><u>4,880</u></b>

## 20. SHARE CAPITAL

	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 1999	743,870	–	743,870
Issue of overseas listed foreign invested shares	<u>–</u>	<u>453,872</u>	<u>453,872</u>
At 31 December 1999 and 31 December 2000	<u>743,870</u>	<u>453,872</u>	<u>1,197,742</u>

On 4 August 1999, 453,872,000 shares of RMB1.00 each in the Company were issued at HK\$3.15 per share through a public offering (“New Issue”), resulting in total proceeds of approximately RMB1,523,367,000. The proceeds of the New Issue were used for financing the Group’s expansion plans and for providing the Group with additional working capital. These shares rank pari passu in all respects with other shares in issue.



## 21. RESERVES

### THE GROUP

	Share premium RMB'000	Discretionary common reserve RMB'000	Statutory public welfare fund RMB'000	Statutory common reserve RMB'000	Goodwill reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 1999	–	83,092	37,555	37,555	(11,301)	183,269	330,170
Issue of shares	1,069,495	–	–	–	–	–	1,069,495
Share issue expenses	(72,835)	–	–	–	–	–	(72,835)
Goodwill arising on acquisition of a subsidiary	–	–	–	–	(360)	–	(360)
Net profit for the year	–	–	–	–	–	340,236	340,236
Transfer	–	44,951	32,174	31,551	–	(108,676)	–
Dividend	–	–	–	–	–	(37,729)	(37,729)
At 31 December 1999	996,660	128,043	69,729	69,106	(11,661)	377,100	1,628,977
Goodwill arising on acquisition of additional interests in subsidiaries	–	–	–	–	(16,494)	–	(16,494)
Net profit for the year	–	–	–	–	–	230,168	230,168
Transfer	–	45,261	32,081	32,081	–	(109,423)	–
Dividend	–	–	–	–	–	(35,932)	(35,932)
At 31 December 2000	<u>996,660</u>	<u>173,304</u>	<u>101,810</u>	<u>101,187</u>	<u>(28,155)</u>	<u>461,913</u>	<u>1,806,719</u>

The accumulated profits of the Group include approximately RMB163,027,000 (1999: RMB138,859,000) retained by associates of the Group.

The discretionary common reserve represents the appropriation of certain percentage of profit after taxation of the PRC subsidiaries as recommended by the directors as reported under the PRC statutory financial statements.

The statutory public welfare fund represents the appropriation of 5% to 10% profit after taxation of the PRC subsidiaries as determined under the PRC accounting standards according to the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. The fund can be applied only for the collective welfare of the employees of the Group in the PRC. The public welfare fund is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year.

The movement in the statutory common reserve represents the appropriation of 10% of profit after taxation of the PRC subsidiaries as determined under the PRC accounting standards in accordance with the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. The appropriation may cease to apply if the balance of the statutory common reserve has reached or exceeded 50% of the registered capital of the PRC subsidiaries.

According to the Articles of Association of the Company and of its subsidiaries established in the PRC, discretionary and statutory common reserves can be used to offset prior year losses, to expand business operations of the PRC subsidiaries or to increase registered capital by way of conversion of reserve to registered capital, provided that the amount of unconverted statutory common reserve shall not be less than 25% of the registered capital of the PRC subsidiaries.

## THE COMPANY

	Share premium RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 1999	–	39,379	39,379
Issue of shares	1,069,495	–	1,069,495
Share issue expenses	(72,835)	–	(72,835)
Profit for the year	–	95,995	95,995
Dividend	–	(37,729)	(37,729)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	996,660	97,645	1,094,305
Profit for the year	–	11,648	11,648
Dividend	–	(35,932)	(35,932)
	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>996,660</u>	<u>73,361</u>	<u>1,070,021</u>

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's retained profits after provision for the final dividend for the year ended 31 December 2000 determined under PRC accounting standards amounted to RMB506,019,000. Accordingly, the Company's distributable profits at 31 December 2000 amounted to RMB73,361,000, being the accumulated profits determined under HK GAAP, which was less than the amount determined under PRC accounting standards.

## 22. LONG-TERM BORROWINGS

	THE GROUP	
	2000	1999
	RMB'000	RMB'000
Bank borrowings repayable:		
After one year but not exceeding two years	2,000	2,000
After two years but not exceeding five years	234,400	—
	<u>236,400</u>	<u>2,000</u>
Other borrowings repayable:		
Within one year	—	2,000
After two years but not exceeding five years	—	2,000
	<u>—</u>	<u>4,000</u>
	236,400	6,000
Less: Amount due within one year shown under current liabilities	<u>—</u>	<u>(2,000)</u>
Amount due after one year	<u><u>236,400</u></u>	<u><u>4,000</u></u>

The above borrowings are unsecured, bearing interest ranging from 6% to 7.76% (1999: 6.00% to 6.53%) per annum.

At the balance sheet date, approximately RMB2,000,000 (1999: RMB2,000,000) of the outstanding balance was guaranteed by the ultimate holding company for no charge. The guarantees will be discontinued upon the respective expiry dates of these facilities in March 2003.

## 23. SHORT-TERM BORROWINGS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings				
– secured	95,300	3,500	90,000	–
– unsecured	1,311,050	1,395,580	190,000	140,680
	<u>1,406,350</u>	<u>1,399,080</u>	<u>280,000</u>	<u>140,680</u>

The bank borrowings bear interest ranging from 3.375% to 8.33% (1999: 4.05% to 10.02%) per annum.

At the balance sheet date, approximately RMB750,000,000 (1999: RMB140,680,000) of the Group's and the Company's outstanding balance was guaranteed by the ultimate holding company.

## 24. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	42	40,993	–	40,951
Credit for the year	–	(40,951)	–	(40,951)
	<u>42</u>	<u>42</u>	<u>–</u>	<u>–</u>

At the balance sheet date, deferred taxation provided was attributable to the excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements.

The credit for 1999 represented the reversal of deferred taxation provided on timing difference arising from the gain on deemed disposal of the Group's interest in Shenzhen Kaifa in prior year that is unlikely to crystallise in the foreseeable future.

Deferred taxation has not been provided on the revaluation deficit of the Group's land and buildings and the unrealised holding gain on the Group's other investments as the tax effect of the resulting timing differences is not significant.

The Group and the Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following transactions and balances with its related parties:

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

	2000 RMB'000	1999 RMB'000
Sales of products	59,964	22,766
Interest expenses paid to ultimate holding company	845	—
Rental expenses paid	—	5,332
Trademark licensing fee paid	—	2,149
Amounts due from fellow subsidiaries	19,726	4,428
Amount due to ultimate holding company	<u>100,000</u>	<u>—</u>

### (b) Associates

	2000 RMB'000	1999 RMB'000
Rental income received	12,045	10,765
Processing fee paid	10,722	11,211
Purchase of components and parts	6,555	—
Amount due from an associate	32	106
Amount due to an associate	<u>364</u>	<u>—</u>

**(c) Companies with common directors of the Company and a shareholder of a fellow subsidiary**

	<b>2000</b>	1999
	<b>RMB'000</b>	RMB'000
Purchase of components and parts	<b>6,868</b>	—
Purchase of land and buildings	—	13,910
Amounts due from related companies	<b>9,083</b>	—
Amount due to a related company	<b>6,156</b>	—

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

Other than the amount due to ultimate holding company which is unsecured, bears interest at 4.875% per annum and is repayable on demand, amounts due from and to other related parties as disclosed above are unsecured, non-interest bearing and repayable on demand.

At the balance sheet date, the ultimate holding company has given guarantees to certain banks to secure the banking facilities granted to the Group as disclosed in notes 22 and 23 for no charge.

## 26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2000 RMB'000	1999 RMB'000
Profit before taxation	383,746	556,852
Share of results of associates	(228,378)	(207,235)
Gain on deemed disposal of partial interest in a subsidiary	(87,091)	–
Interest income	(66,832)	(62,622)
Interest expenses	68,284	99,601
Dividend income from other investments	(21,660)	(19,200)
Unrealised holding gain on other investments	–	(26,458)
Depreciation and amortisation	150,437	150,042
Deficit on revaluation of land and buildings	–	9,462
Loss on disposal and write off of property, plant and equipment	16,779	6,466
Increase in inventories	(131,375)	(112,800)
Increase in trade and other receivables	(594,045)	(203,946)
Decrease in bills receivable	26,955	4,920
Increase in amounts due from fellow subsidiaries	(15,298)	(4,428)
Decrease in amount due from an associate	74	79,729
(Increase) decrease in amounts due from related companies	(9,083)	50,631
Increase (decrease) in trade and other payables	235,459	(198,256)
(Decrease) increase in bills payable	(165,146)	338,549
Increase in amount due to an associate	364	–
Increase (decrease) in amounts due to related companies	6,156	(23,232)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	<u>(430,654)</u>	<u>438,075</u>



## 27. ACQUISITION OF A SUBSIDIARY

	2000 RMB'000	1999 RMB'000
Net assets acquired:		
Property, plant and equipment	–	32,862
Inventories	–	2,654
Trade and other receivables	–	1,891
Bank balances and cash	–	291
Trade and other payables	–	(2,691)
Short-term borrowings	–	(503)
	<hr/>	<hr/>
	–	34,504
Goodwill	–	646
	<hr/>	<hr/>
Total consideration	<u>–</u>	<u>35,150</u>
Satisfied by cash	<u>–</u>	<u>35,150</u>
Net cash outflow arising on acquisition:		
Cash consideration	–	35,150
Bank balances and cash acquired	–	(291)
	<hr/>	<hr/>
	<u>–</u>	<u>34,859</u>

The subsidiary purchased did not have any significant impact on the revenue, profit, net operating cash flows, return on investments and servicing of finance or investing activities for the year.

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium RMB'000	Bank and other borrowings RMB'000	Minority interests RMB'000	Amount due to ultimate holding company RMB'000
At 1 January 1999	743,870	1,270,900	1,158,775	454,259
Issue of shares	1,523,367	—	—	—
Share issue expenses	(72,835)	—	—	—
New bank borrowings raised	—	2,052,080	—	—
Repayment of bank and other borrowings	—	(1,918,403)	—	—
Capital contribution from minority shareholders	—	—	15,732	—
Repayment to ultimate holding company	—	—	—	(454,259)
Profit attributable to minority shareholders	—	—	213,978	—
Dividends paid to minority shareholders	—	—	(81,897)	—
Goodwill on acquisition of a subsidiary shared by minority shareholders	—	—	(286)	—
Acquisition of a subsidiary	—	503	—	—
At 31 December 1999	2,194,402	1,405,080	1,306,302	—
New borrowings raised	—	2,258,750	—	100,000
Repayment of borrowings	—	(2,021,080)	—	—
Capital contribution from minority shareholders	—	—	264,701	—
Deemed disposal of partial interest in a subsidiary	—	—	(87,091)	—
Profit attributable to minority shareholders	—	—	114,828	—
Dividends paid to minority shareholders	—	—	(9,684)	—
Additional interests in subsidiaries acquired by the Group	—	—	(10,500)	—
At 31 December 2000	<u>2,194,402</u>	<u>1,642,750</u>	<u>1,578,556</u>	<u>100,000</u>

## 29. CAPITAL COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of construction in progress:				
– contracted but not provided for in the financial statements	284,462	19,344	144,801	–
– authorised but not contracted for	213,860	183,530	–	121,130
Capital contribution in respect of other investments	33,112	49,966	–	–
	<u>531,434</u>	<u>252,840</u>	<u>144,801</u>	<u>121,130</u>

## 30. LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make payments in the following year in respect of land and buildings under non-cancellable operating leases expiring:

	2000	1999
	RMB'000	RMB'000
Within one year	2,902	3,314
In the second to fifth year inclusive	<u>6,352</u>	<u>4,468</u>
	<u>9,254</u>	<u>7,782</u>

The Company did not have any significant lease commitments at the balance sheet date.

### 31. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	RMB'000	RMB'000
Bills discounted with recourse	<u>—</u>	<u>60,000</u>

The Company did not have any significant contingent liabilities at the balance sheet date.

### 32. PLEDGE OF ASSETS

At the balance sheet date, the Group and the Company had bank deposits amounting to approximately RMB215,722,000 (1999: RMB3,500,000) and RMB124,500,000 (1999: Nil), respectively, pledged to banks to secure general banking facilities granted to the Group.

### 33. POST BALANCE SHEET EVENT

Pursuant to the press announcement made by Shenzhen Kaifa on 2 March 2001, Shenzhen Kaifa proposed to issue additional 60,174,630 A shares on the Shenzhen Stock Exchange to the public on the basis of 3 shares for every 10 shares held by the shareholders in order to provide additional funds for the expansion of its business operations.