

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2001

### **1. GENERAL**

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

The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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.

### **2. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that, comparative figures are not presented for the condensed consolidated cash flow statement, being the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting periods ended on or after 1 July 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on the Stock Exchange.

### **3. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong.

The accounting policies adopted for the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs does not have any material effect on the current or prior accounting periods, except for the following:

#### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment.

**3. PRINCIPAL ACCOUNTING POLICIES – continued****Dividends proposed or declared after the balance sheet date – continued**

The condensed consolidated balance sheet at 31 December 2000 has been restated for purpose of this interim financial report, resulting in an increase in the Group's dividend reserve and decrease in dividend payable at 31 December 2000 by approximately RMB35,932,000 (31 December 1999: RMB37,729,000).

**Segment reporting**

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the six months ended 30 June 2000 have been amended so that they are presented on a consistent basis.

**Goodwill**

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill or negative goodwill previously eliminated against or credited to, respectively, reserves. Accordingly, goodwill or negative goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged or credited to the income statement at the time of disposal of the relevant subsidiary, associate, joint venture or business, or at such time as the goodwill is determined to be impaired.

Any goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

**4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION**

The Group is currently organised into three main operating segments, manufacture and sale of personal computers ("PC") and PC peripheral products, hard disk drives ("HDD") and related products and network transmission and add-on products.

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION – continued

Segment information for the six months ended 30 June 2001 and 2000 about these businesses is presented below:

##### Business segments

For the six months ended 30 June 2001					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE					
External sales	1,010,744	1,531,919	73,978	–	2,616,641
Inter-segment sales	85,971	22,938	115,210	(224,119)	–
Total revenue	<u>1,096,715</u>	<u>1,554,857</u>	<u>189,188</u>	<u>(224,119)</u>	<u>2,616,641</u>
SEGMENT RESULT	<u>480</u>	<u>31,140</u>	<u>2,344</u>	<u>–</u>	<u>33,964</u>
Unallocated other revenue					<u>41,617</u>
Profit from operations					<u>75,581</u>

For the six months ended 30 June 2000					
	PC and PC peripheral products RMB'000	HDD and related products RMB'000	Network transmission and add-on products RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE					
External sales	932,167	1,688,919	3,473	–	2,624,559
Inter-segment sales	–	–	173,980	(173,980)	–
Total revenue	<u>932,167</u>	<u>1,688,919</u>	<u>177,453</u>	<u>(173,980)</u>	<u>2,624,559</u>
SEGMENT RESULT	<u>(12,523)</u>	<u>108,219</u>	<u>4,115</u>	<u>–</u>	<u>99,811</u>
Unallocated other revenue					<u>11,692</u>
Profit from operations					<u>111,503</u>

## 4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION – continued

### Geographical segments

For the six months ended 30 June 2001

	PRC RMB'000	Asia Pacific (excluding PRC) RMB'000	North America RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE						
External sales	1,139,420	1,044,055	413,622	19,544	–	2,616,641
Inter-segment sales	201,181	22,938	–	–	(224,119)	–
Total revenue	<u>1,340,601</u>	<u>1,066,993</u>	<u>413,622</u>	<u>19,544</u>	<u>(224,119)</u>	<u>2,616,641</u>
SEGMENT RESULT	<u>(25,703)</u>	<u>41,486</u>	<u>17,596</u>	<u>585</u>	<u>–</u>	<u>33,964</u>
Unallocated other revenue						41,617
Profit from operations						<u>75,581</u>

For the six months ended 30 June 2000

	PRC RMB'000	Asia Pacific (excluding PRC) RMB'000	North America RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE						
External sales	989,156	1,194,477	419,929	20,997	–	2,624,559
Inter-segment sales	173,980	–	–	–	(173,980)	–
Total revenue	<u>1,163,136</u>	<u>1,194,477</u>	<u>419,929</u>	<u>20,997</u>	<u>(173,980)</u>	<u>2,624,559</u>
SEGMENT RESULT	<u>(7,385)</u>	<u>78,295</u>	<u>27,525</u>	<u>1,376</u>	<u>–</u>	<u>99,811</u>
Unallocated other revenue						11,692
Profit from operations						<u>111,503</u>

## 5. OTHER REVENUE

Six months ended	
30.6.2001	30.6.2000
RMB'000	RMB'000
(Unaudited)	(Unaudited)

Included in other revenue are as follows:

Dividend income from other investments  
Interest income

41,617	11,692
<u>16,322</u>	<u>19,862</u>

## 6. PROFIT FROM OPERATIONS

Six months ended	
30.6.2001	30.6.2000
RMB'000	RMB'000
(Unaudited)	(Unaudited)

Profit from operations has been arrived at after charging:

Depreciation and amortisation of property, plant and equipment

<u>107,625</u>	<u>60,583</u>
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## 7. TAXATION

Six months ended	
30.6.2001	30.6.2000
RMB'000	RMB'000
(Unaudited)	(Unaudited)

The taxation charge comprises:

Current year:

Hong Kong Profits Tax

PRC income tax

Deferred taxation credit

3,272	1,627
10,435	2,803
<u>(42)</u>	<u>—</u>
13,665	4,430
<u>11,095</u>	<u>9,016</u>
<u>24,760</u>	<u>13,446</u>

Taxation attributable to the Company and its subsidiaries

Share of taxation of associates

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

PRC income tax has been provided at the prevailing rates on the estimated assessable profit applicable to each individual company within the Group in the PRC.

Deferred taxation has been provided in respect of timing differences arising during the period.

## 8. DIVIDEND

The directors do not recommend the payment of an interim dividend for either period.

## 9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of approximately RMB65,894,000 (six months ended 30.6.2000: RMB175,347,000) and on 1,197,742,000 shares (30.6.2000: 1,197,742,000 shares) in issue during the period.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent an aggregate amount of RMB1,029,663,000 (six months ended 30.6.2000: RMB196,970,000) on additions to property, plant and equipment.

## 11. 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 were trade receivables of RMB1,031,836,000 (31.12.2000: RMB1,376,692,000) with aged analysis as follows:

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Within 90 days	661,849	1,218,948
91 – 180 days	292,046	81,915
181 – 365 days	37,892	25,591
Over 365 days	40,049	50,238
	<u>1,031,836</u>	<u>1,376,692</u>

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. In 2000, 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. In October 2000, 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 August 2001, 中華人民共和國最高法院 granted the final judgement in favour of the Group, and 四川銀通 is required to repay the outstanding balance to the Group and 成都市商業銀行 should be responsible for related payment obligations. In the opinion of the directors, the Group will receive the whole outstanding balances from 四川銀通 and 成都市商業銀行 and, accordingly, no provision for doubtful debt in respect of the RMB33.6 million receivable has been made in the financial statements.

# 11. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE – continued

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

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Within 90 days	23,420	49,837
91 – 180 days	3,800	1,130
	<u>27,220</u>	<u>50,967</u>

# 12. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

(a) Included in trade and other payables were trade payables of RMB871,005,000 (31.12.2000: RMB816,362,000) with aged analysis as follows:

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Within 90 days	763,236	759,515
91 – 180 days	75,083	27,747
181 – 365 days	29,058	10,098
Over 365 days	3,628	19,002
	<u>871,005</u>	<u>816,362</u>

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

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Within 90 days	141,422	192,830
91 – 180 days	12,689	10,044
	<u>154,111</u>	<u>202,874</u>

## 13. SHARE CAPITAL

There were no movements in share capital of the Company in either the current or the prior interim reporting period.

## 14. RESERVES

	Share premium RMB'000	Discretionary common reserve RMB'000	Statutory public welfare fund RMB'000	Statutory common reserve RMB'000	Goodwill reserve RMB'000	Dividend reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2000								
As original stated	996,660	128,043	69,729	69,106	(11,661)	–	377,100	1,628,977
Prior period adjustment	–	–	–	–	–	37,729	–	37,729
As restated	996,660	128,043	69,729	69,106	(11,661)	37,729	377,100	1,666,706
Goodwill arising on acquisition of additional interests in subsidiaries	–	–	–	–	(16,494)	–	–	(16,494)
Dividend paid	–	–	–	–	–	(37,729)	–	(37,729)
Net profit for the year	–	–	–	–	–	–	230,168	230,168
Transfer								
– Reserves and fund	–	45,261	32,081	32,081	–	–	(109,423)	–
– Final dividend for the year	–	–	–	–	–	35,932	(35,932)	–
At 31 December 2000	996,660	173,304	101,810	101,187	(28,155)	35,932	461,913	1,842,651
Dividend paid	–	–	–	–	–	(35,932)	–	(35,932)
Net profit for the period	–	–	–	–	–	–	65,894	65,894
At 30 June 2001	996,660	173,304	101,810	101,187	(28,155)	–	527,807	1,872,613

## 15. CAPITAL COMMITMENTS

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

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Capital expenditure in respect of construction in progress:		
– contracted but not provided for in the financial statements	333,332	284,462
– authorised but not contracted for	–	213,860
Capital contribution in respect of other investments	16,556	33,112
	<u>349,888</u>	<u>531,434</u>



## 16. PLEDGE OF ASSETS

At the balance sheet date, the Group had bank deposits amounting to RMB574,700,000 (31.12.2000: RMB215,722,000) which were pledged to banks to secure general banking facilities granted to the Group.

## 17. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2001 and 2000, the Group entered into the following transactions with related parties:

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

	Six months ended	
	30.6.2001	30.6.2000
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rental expenses paid	1,562	2,514
Sales of products	13	—
Interest expenses paid to ultimate holding company	2,925	—
	<u>          </u>	<u>          </u>

(b) Associates:

	Six months ended	
	30.6.2001	30.6.2000
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products	1,545	—
Rental income received	10,483	10,559
Processing fee paid	243	5,986
	<u>          </u>	<u>          </u>

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

	Six months ended	
	30.6.2001	30.6.2000
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of components and parts	13,540	—
Sales of products	1,833	—
	<u>          </u>	<u>          </u>

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

## 17. RELATED PARTY TRANSACTIONS AND BALANCES – continued

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:

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Amounts due from fellow subsidiaries	2,779	19,726
Amount due to ultimate holding company	100,000	100,000
Amount due to a fellow subsidiary	228	–

(b) Associates:

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Amount due from an associate	197	32
Amount due to an associate	–	364

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

	30.6.2001 RMB'000 (Unaudited)	31.12.2000 RMB'000 (Audited)
Amounts due from related companies	989	9,083
Amount due to a related company	–	6,156

The amount due to ultimate holding company is unsecured, interest-bearing and is repayable on demand. Other than amount due to ultimate holding company, amounts due from and to other related parties as disclosed above are unsecured, non-interest bearing and are repayable on demand.

At the balance sheet date, RMB1,460,000,000 (31.12.2000: RMB752,000,000) of the Group's outstanding bank borrowings was guaranteed by the ultimate holding company.